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Mayor's Fiscal Advisory Committee Report

MFAC

TABLE OF CONTENTS

VOLUME I

1. Mayor's Letter

2. MFAC Statement of Objectives

3. MFAC Membership List

4. MFAC Committees

5a. Executive Summary: Longterm Revenue/Cost Trends

5b. Longterm Revenue & Cost Trends -Overview

6. Tax Revenue - Summary of Results

7. Social Services

8. Purchasing

9. SF Employees Retirement System

10. Sheriff's Department

11. Fire Department

12. Municipal Court

13. Police Department

14. Public Health

VOLUME II

15. Port

16. Municipal Railway

17. Airport

18. DPW, PUC, Parking and City Planning -Executive Summary

18a. PUC Depts; and DPW Bureau of Engineering

18b. Appendix A. - Hetch Hetchy

18c. Appendix B. - Water Dept.

18d. Appendix C. - PUC Engineering Bureau and DPW Bureau of Engineering

19. Department of Public Works

20. Assessor's Office

21. Recreation and Park

22. Tax Collector

AGP-6991

Office of the Mayor
SAN FRANCISCO

FRANK M. JORDAN

July 24, 1992

Jack Jenkins-Stark, Chair
and Members
Mayor's Fiscal Advisory Committee
77 Beale Street, #805
San Francisco, California 94106

Dear Members of the Mayor's Fiscal Advisory Committee:

I write to thank you for your recent MFAC report. It reflects an enormous amount of work and careful thought. You have provided a great service to the City.

Through this report, you have presented a wide range of options that the City can consider. As you know, my proposed FY 1992/93 budget incorporates several of your proposals, ranging from the processing of workers' compensation claims to increased automation. Many more improvements will be implemented over the coming months. I have attached a summary of the work plan developed by my budget office, for your information.

I know that you share my concern that the report and its findings not be misinterpreted. As we discussed, MFAC reviews of departments were to provide a framework for further discussion and analysis by the Mayor, Commissions, department heads and their staff, the Board of Supervisors, and the various communities that are involved with government operations such as City employee labor unions or community advisory groups. You have now provided that framework and the next step-- public review and comment prior to implementation -- can begin. Such review affords all of us an opportunity to evaluate different viewpoints, a healthy thing at all times.

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There are several points on which I wish to comment. I have listed these here, in order to better focus the future analysis and debate.

The MFAC comparisons of service levels are extremely informative. It is important that San Franciscans better understand their government so that we can work together to match our service levels to be consistent with available resources.

We can now add a further dimension to these analyses -- more specific consideration of need. In some instances, our service levels reflect our diverse population with complex and distinctive needs. As financial constraints continue to push us to rebalance our service delivery system, I know we must compassionately reshape government while addressing these needs.

I know you share my belief that analyses of programs such as the use of outside contractors and development of investment strategies should take into account not only the differential costs, but also the need to maintain governmental control over the policies and ideals that give San Francisco government its character and meaning. We also must consider the government's ability to serve all its citizens over the long-term, retaining the capacity to provide services that outside contractors may not be able to provide in the future. Your report provides the important economic analysis that is necessary before we turn to the broader social and policy considerations involved.

Several areas of MFAC's study relate to the City's labor relations policies, such as those involving the scheduling of police officers, salary-setting and scheduling of transit operation workers, and the contracting out noted above. The report notes, correctly, that such policies are subject to meet and confer and collective-bargaining agreements.

The meet and confer process is a collaborative one. It is most effective when both parties -- management and labor -- join together to cooperatively address issues of mutual concern, and without either party deciding, in advance, what the outcome should be. I plan to pursue discussions regarding several of the ideas presented in the MFAC report, and look forward to working together with the affected employee groups to respond to the costs and efficiencies that the report addresses. The outcome of these discussions may differ in some respects from that outlined in the MFAC report.

In passing, I want to especially note your acknowledgment of the importance of Laguna Honda Hospital, as a public health care facility, to the citizens of San Francisco.

I share MFAC's concern for the maintenance of Laguna Honda's federal waiver that enables us to serve Medi-Cal and Medicare patients at the facility. I understand that the proposed 1993 bond issue will enable the City to ensure the facility's federal eligibility. I also share MFAC's desire to have the hospital run efficiently, in line with the City's fiscal constraints, and look forward to implementation of specific recommendations for operational improvements.

* * *

I am extremely proud of the MFAC report, and appreciative of the hours of work, discussions and analysis involved. I look forward to working with you as we proceed to the next phase of public review and discussion.

Sincerely,

Frank M. Jordan

Frank M. Jordan
Mayor

FMJ/mkla

Budget Staff Workplan

Citywide tasks:

Staff will begin working on the following tasks:

- Examine service levels and develop workload measures with departments.
- Develop and implement MBOs.
- Issue quarterly financial reports on key budget issues, based on department financial data.
  - overtime
  - premium pay
  - workers compensation
- Monitor personnel turnover rates in Departments.
- Examine user and service fees.
- Monitor the implementation of the Assessor's automation system.
- Review employee parking policies and practices to determine revenue potential.
- Work with Tax Revenue Team to implement use of revenue and expenditure forecasting models.

Police Department:

- Continue review of the 4-10 plan and discussions with POA.
- Continue review and analysis of the number of stations, number of supervisors, and the use of civilians. Work with the Department to determine the optimal staffing pattern, with particular emphasis on 911 dispatching.
- Review Senior Escort Service to improve efficiency of operations.

MUNI:

- Work with the Department to develop a proposal for premium fares.
- Monitor new revenues against Department forecast (1st and 2nd qtrs).
- Work with MUNI to identify parallel service routes as possible candidates for service consolidation (year-long).
- Work with MUNI to identify funds for capital expenses associated with implementing a Proof of Payment system (year-long).
- Identify and assess alternatives for additional tax assessments/transit impact fees.
- Pursue alternatives for the reorganization of the PUC and bureaus.

Health Departments:

- Review mental health delivery system for improvements.
- Review contracting methods to consolidate paperwork and address administrative efficiencies.
- Review enterprise structure of the hospitals.

Civil Service:

- Monitor the implementation of the performance evaluation system, which is currently in process.
- Initiate implementation of the salary interval (benchmark) study for recommendations to more appropriately establish benchmark classifications.

Retirement:

- Monitor the implementation of the Third Party Administrator contract including adherence to proposed milestones.

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Social Services:

- Work with the Department to implement Foodstamps/GA consolidation in latter half of 92-93. This task would also depend on the budget proposals coming from the State (3rd qtr).

Recreation and Park:

- Follow up on Controller's audit on Marina yacht berths.
- Explore expanded revenue usage of Kezar Stadium. The Department reports that this recommendation may be limited because of neighborhood opposition to extensive use of Kezar as a large event site.
- Explore feasibility with Department of reducing staffing costs further for 1993-94. Develop a simple model for costing out department salary expenses.
- Continue to pursue transfer of Zoo to Zoological Society.
- Explore the continued need for a plant nursery.
- Work with the Department to develop an equipment replacement plan

Sheriff:

- Review Department's organization and staffing patterns (1st quarter).
- Review consent decree requirements for potential savings (1st qtr.).
- Establish clear policy on the collection of citizenship data and expedite the transfer of illegal aliens to INS (2nd qtr).
- Develop a workplan to cost-justify and implement a startup court management system (3rd and 4th qtr).

Public Works:

- Review benchmarks for crafts workers.
- Continue to review fee structures for planning and building permits.

MAYOR'S FISCAL ADVISORY COMMITTEE
STATEMENT OF OBJECTIVES

PREAMBLE

The Mayor's Fiscal Advisory Committee shall respond to official requests for assistance from City government and be results oriented. Its general approach will be not only to study City problems and make recommendations but also to see that they are implemented to the fullest extent possible. The committee shall draw on pro bono private sector-community resources - not as a substitute for public sector resources - but as a means of strengthening government's ability to do a better job in meeting its future responsibilities. The Committee shall continue to service at the pleasure of the Mayor

****

The purpose of the Committee is to provide management review and suggestions for improvements in San Francisco City government executive operations which will maintain essential municipal services, especially under revenue limitations.

The Committee will seek to increase the efficiencies and productivity of the executive administration, departments, and work force of the City through professional studies of key activities, formation of practical plans for achieving agreed upon goals, and the implementation of plans in full cooperation with all concerned. The Committee shall likewise study the revenue-raising activities of City government and make recommendations for achieving efficiencies and rational fee relationships to costs of actual services provided.

The Committee will explore the extent to which longer range fiscal planning can be applied to practical City management by helping to anticipate budget needs and the means by which to meet them more than one year ahead.

It is not the objective of the Committee to eliminate services, but any programs which are found to be redundant, wasteful, or unnecessary will be identified for appropriate official action. Duplication of City services by state, federal, or other public agencies should be identified for possible transfer at a reduction in cost to one or another of these agencies. The Committee shall likewise seek to assure that City departments make use of all available state and federal aids and coordinate programs funded with such aid with programs funded with local dollars.

The Committee shall also recommend any changes in the City Charter and any new ordinances which in its view will promote efficiencies.

The Committee shall also monitor the level of public - including investor - confidence in the present and future economy and management of the City in order to report trends which affect financial prospects for the City and job opportunities for all San Franciscans.

The Committee will form task forces of its members and others to perform specific review projects as it deems necessary to achieve its goals. Such task forces will also monitor progress made toward implementation of remedial recommendations and report regularly to the full Committee.

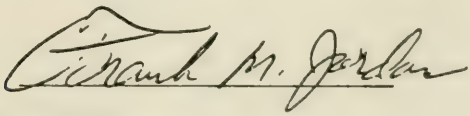
To promote these objectives, the Committee shall enjoy latitude in its work to consult freely with the Mayor, the Chief Administrative Officer, and the Board of Supervisors and their staffs to provide assistance and to help implement the Committee's recommendations. All City government requests for management advice and assistance from the Mayor's Fiscal Advisory Committee shall be coordinated by the Mayor's Office.

The Committee will meet regularly with the Mayor and other senior City officials to give progress reports, receive advice, and consider requests for further assistance.

Committee public statements shall be cleared with its leadership prior to release. Such statements should cover working procedures and results rather than speculative or hopeful assessment of future effectiveness.

An important aim of the Committee will be to help strengthen public sector/private sector relationships in the interest of making San Francisco a better City for all citizens.

Approved by Mayor Frank M. Jordan



MFAC OBJECTIVES

WHAT

To help strengthen City government's ability to do a better job in maintaining essential municipal services and in meeting its future needs, especially under revenue limitations.

HOW

- By responding to official requests for help.
- By studying City problems, making recommendations and seeing to their implementation.
- By focusing on ways to improve productivity, efficiencies and revenues, and to reduce waste.
- By exploring ways to improve the City's fiscal planning process, and helping City management anticipate budget needs and the means to meet these needs more than one year ahead.

WHY

To help make San Francisco a better City for all citizens.

OUR GUIDING PRINCIPLES

1. We are not a political organization.
2. We don't create work. We serve:
    - on request
    - at the Mayor's pleasure.
3. We don't seek publicity; all work is confidential.
4. We see recommendations through to completion.
5. We credit department heads for ideas that develop from our work together.

MFAC MEMBERSHIP LIST

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GARY A. WOLLIN
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MAYOR'S FISCAL ADVISORY COMMITTEE

Cost Trend / Fiscal Model Project
List of Members

MFAC CHAIRMAN		
*Jack Jenkins-Stark	V.P. & Treasurer	Pacific Gas & Electric Co.
MFAC EXECUTIVE DIRECTOR		
*Gwenn E. Hardin	Director (on loan)	Pacific Gas & Electric Co.

OVERALL PROJECT CO-CHAIRS:

***Tom Cusak**	**Vice President**	**Transamerica Corporation**
***Dick Daniel**	**Executive Vice President**	**Bank of America**
***Lee Munson**	**President**	**A.L. Munson & Company**

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*John Gruenstein	President	BPA
Kenneth Ballard, Ph.D	Dir. of Economic Forecasting	Pacific Gas & Electric Co.
Dick Bruins	Director Economics - Retired	Pacific Bell
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*Walter Hoadley	Senior Research Fellow	Hoover Institution
Anne Jenkins	Budget Analyst	City & County of S.F.
Kimberly Walesh	Senior Policy Analyst	SRI International

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***Terry Comerford**	**First Vice President**	**PaineWebber Inc.**
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Pam Edwards	Partner	Peat Marwick Main (Oakland)
Denise Price	Senior Manager	Peat Marwick Main

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John Crittenden	Partner	Cooley, Godward, et. al.
*Mike McGill	Executive Director	Bay Area Economic Forum
Ben Riley	Partner	Cooley, Godward, et. al.
Scott Sunbury	Assistant Vice President	Wells Fargo Bank
Jim Trainor	Consultant	Genentech
Todd Werby	Executive Vice President	Grosvenor Properties

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Robert Moeller	**Vice President**	**Booz, Allen and Hamilton**
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Kevin John	Senior Financial Analyst	Bank of America
Fred Weiner	Assistant to the CAO	City and County of SF

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***Paul Rosenstiel**	**Vice President**	**The First Boston Corp.**
Deborah Alvarez-Rodriguez	Assist. Dir. Budget & Planning	City & County of S. F.
Laura Gardner	Senior Health Researcher	SRI International
Janine Guillot	Senior Technical Accountant	Bank of America
*Deborah Jay	V.P. & Research Director	Field Research Corporation
Joan Meisel	Vice President	Lewin / ICF
Kathleen Murren	Manager	Andersen Consulting
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Kris Larson	Financial Consultant	Bank of America
Barry Lastra	Senior Consultant	Chevron Corp.
*Linda Mjellem	Dir. of Business Assistance	City & County of S. F.
Ed Schneider	Coordinator, Investor Relations	PG&E
David Stephens	Vice President	Goldman Sachs

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***Clark Warden**	**Senior Vice President**	**Sumitomo Bank of Calif.**
Melinda Su	Business Analyst	Deloitte & Touche

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Tim Doss	Manager	Coopers & Lybrand
Janice Frazier-Hampton	Rate Analyst	PG&E
John Madden	Special Projects Manager.	Controller's Office
*Lee Munson	President	A.L. Munson & Company
Paul Ridgeway	President	Easterday Janitorial Supply Co.

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*Dick Daniel	Executive Vice President	Bank of America
*Lee Munson	President	A.L. Munson & Company

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Susan Andrus	Gerardo Sandova
*Ed Harrington	Teresa Serata
Larry Garcia	Arnie Sowell
Peter Goldstein	John Sucich
John Madden	Al Walker
*Rudy Nothenberg	Sam Yockey (Past Finance Director)

Support Team:

Ernest Culver	Senior Financial Analyst	Bank of America
Jennifer Shannon	Senior Financial Analyst	Bank of America

* MFAC Member

"Bold Type" are Team Leaders

Mayor's Fiscal Advisory Committee
San Francisco

EXECUTIVE SUMMARY

Task Force on Long Term Cost & Revenue Trends

July 1992

Dear Mayor Jordan:

This report presents a summary of the findings of the MFAC Task Force on Long-Term Cost and Revenue Trends for San Francisco. We hope that the data and policy options reviewed in this report are helpful as you develop your own long-term program to re-balance the City's fiscal priorities while maintaining the special quality of life we enjoy in San Francisco.

The Task Force included 73 private sector executives and managers from Bay-Area firms, as well as senior level managers from the Controller's department, the Mayor's budget office, the CAO's office and Civil Service. This summary of their work presents over 50 policy options for your consideration.

The nine MFAC teams have worked for over a year, interviewing department heads and managers in 25 major City departments, and reviewing their cost and revenue data for FY 1987-91. Working with the departments, they also selected 17 peer cities and counties for comparison purposes. The teams compared San Francisco's financial, staffing and workload data with data obtained from these peers or from federal and state reports.

The teams have focused on policy options for specific departments. Some options would require added funds - such as for revenue-producing activities or for automating operations to make them more cost-effective.

Other options could provide increased revenues or cost savings to fund other critical programs or to eliminate budget deficits. The teams have discussed these options and their reports with the departments involved.

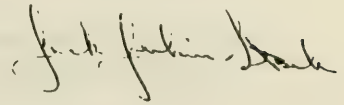
This summary also presents policy options for dealing with certain City-wide issues: financial systems and controls, planning, productivity and personnel management.

We recognize that you may decide to implement some of the options discussed and decide not to pursue others. Accordingly, we are presenting an extensive list of possible alternatives for helping the City raise revenues and provide services more cost-effectively. Many of these ideas were suggested initially by managers in City departments.

The total savings from these options will, of course, depend on which ones are implemented. Some would take several years to reach the annual savings levels estimated in the report. Such savings, together with your spending plan for fiscal 1993, could allow the City to balance budgets in later years without resorting to extreme measures. Alternatively, if the City reverts to its 1987-91 growth rate in spending, we could be facing deficits well over $200 million by 1996.

We look forward to assisting you with further work on the policy options you select and with work on other projects.

Very truly yours,



Task Force Management Group

Task Force Co-Chairs:

Dick Daniel, Executive Vice President, Bank of America

Tom Cusack, Vice President, Transamerica Corporation

Lee Munson, President, A. L. Munson & Co.

Administration Team:

Gwenn Hardin, Executive Director, MFAC

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1. Tax Revenue: John Gruenstein, President, BPA Economics, Inc.; Ken Ballard, Dir. Economic Forecasting, Pacific Gas & Electric.
2. Public Transportation: Farnum Alston, Partner, Peat Marwick, Main.
3. Public Protection: Sandy Tatum, Partner, Cooley, Godward, Castro, Huddleston & Tatum.
4. Public Works: Ed McCrary, Associate Partner, Skidmore, Owings & Merrill; Scott Belser, Consultant, Waterman Miller; Robert Moeller, Vice President, Booz, Allen & Hamilton.
5. Health Services: Tom Cusack, Vice President, Transamerica Corp.; Paul Rosenstiel, Vice President, The First Boston Corp.; Deborah Jay, Research Director, Field Research.
6. Social Services: Ed Burdett, Vice President, Goldman Sachs & Co.
7. Culture & Recreation: Mike Riley, Regional Vice President, Union Bank; Clark Warden, Senior Vice President, Sumitomo Bank of California; Charles Stamm, National Director, Food Industry Services, Deloitte & Touche.
8. Administrative Services: Roy Nordman, retired Partner, Coopers & Lybrand.

9. Special Projects: Dick Daniel, Executive Vice President, Bank of America; Lee Munson, President, A. L. Munson & Co.

City & County Resource Team

Rudy Nothenberg, Chief Administrative Officer; Ed Harrington, Controller; John Madden, Assistant Controller; Peter Goldstein, Ann Jenkins, Mayor's Budget Office; Larry Garcia, Civil Service; Sally Kipper, Social Services; Fred Weiner, CAO's office.

And our special thanks to Sam Yockey, former Deputy Mayor, Budget Director and Controller.

CONTENTS

Overview of 1987-91 1

Peer City/County Data 7

Overview, Policy Options 15

Team Findings & Policy Options

Economic Outlook & Tax Revenue Forecast for 1992-'96 19

Muni Railway 22

Health & Hospitals 26

Social Services 32

Police 34

Sheriff 38

Courts 39

Public Works, PUC, Planning & Water 42

Park & Recreation 46

Assessor, Treasurer, Tax Collector 48

Retirement System 50

City-Wide Issues

Planning & Productivity 55

Personnel Management 58

Overview of Fiscal Years 1987-1991

During the past five years, rapid growth in tax revenues and government subsidies allowed rapid growth in costs of services delivered, with little increase in fees charged to service users.

City & County of San Francisco
Revenues and Expenses
General, Special and Enterprise Funds

	Fiscal 1991 ($ Millions)	1987-1991 Growth/Year
Tax Revenues	$ 917	8%
Federal & State Govt Subsidies	548	9%
Subtotal	1,465	8%
Operating Expenses	(2,315)	6%
User Revenues & Charges	893	4%
Net Operating Deficit	(1,422)	8%
Net Surplus after Taxes and Govt Subsidies	43	
Capital Outlays and Net Interest Expense	(53)	
Decrease in Fund Balances and Enterprise Dept Retained Earnings	(10)	

- **A continuation of current expense trends will produce a structural budget deficit in San Francisco.**

    - The MFAC Tax Revenue team expects that tax revenues will grow at only 6.2% annually over the five fiscal years 1992-1996.
    - State and federal funding for San Francisco's services is expected to slow dramatically.
    - Without concerted action to both reduce expense growth and increase fees/charges for services, a structural deficit will develop, and will grow larger in future years.

- A Structural Deficit Scenario:

    - If growth in tax revenues slows to 6%/year, while growth in federal and state funding slows to 4%
    - If there is no increase in the 4%/year growth in operating revenues from users of services
    - If operating expenditures continue to grow at 6 %
    - Then, annual budget deficits grow to $200 million or more by 1996.

- **Total City and County expenses grew at 6% per year during the 1987-91 period - versus inflation of 4.6%.**

- Net costs to taxpayers grew at 8%, after allowing for revenues from users and government subsidies.

City & County of San Francisco
Expenses, All Government and Enterprise Funds

	Total Expenses, Before Revenues & Gov't Subsidies		Net Cost* After Revenues & Subsidies
	1991 $MM	4 Year Growth Rate	4 Year Growth Rate
Health, Hospitals	519	10%	16%
Public Protection	473	4%	4%
Transportation	437	6%	6%
Public Works	310	5%	3%
Social Services	306	8%	7%
Admin/Finance	148	6%	6%
Culture/Recreation	122	6%	6%
Total	**$2,315**	**6%**	**8%**

Source: S.F. Consolidated Annual Financial Reports. Special City Controller's Report on Revenues by Function.

* Net cost represents the net cost to the City's taxpayers, after deducting operating revenues, Federal and State grants and subventions from total expenses.

- **There is an average growth rate of 6.4%/year in net costs for the 17 departments with net costs over $10 million in 1991.**

Departments with over $10 Million/Year In Net Costs*	1991 Net Costs* In $ Millions	Annual Growth 1987-1991
Police	195	2.6%
Fire	152	4.5%
Muni	122	4.6%
Social Services	84	11.2%
SF General	77	15.4%
Community Mental Health	44	(1.6%)
Public Health, Central Office (Includes AIDS programs)	34	30.9%
Sheriff	30	7.7%
General City Responsibility (Includes Retiree Health Benefits)	21	1.8%
Public Library	19	4.1%
Recreation & Parks	18	1.8%
Muni Court	18	9.5%
Parking & Traffic (New commission created in 1991)	16	N/A
Controller	15	5.1%
Juvenile Court	15	3.4%
District Attorney	14	5.4%
Superior Court	13	13.9%
Subotal, 17 Departments	**887**	**6.4%**

* Net Cost to local taxpayers, based on total expenses, minus state & federal funding and user charges.

Common Themes of Departmental Reviews

- "Rich" Service Mix
- Relatively Low User Charges
- Delivery Mechanism Relatively Costly
- Few "Simple Fixes"
- To lower service costs and maintain service levels will require changes for Users/Recipients and Providers (City Workers)

Peer City/County Comparisons

- **The Special Projects team studied revenues and expenses of 17 city/county areas in the U.S. to evaluate major differences.**
  - To make the data comparable, data for cities and counties was combined to create "synthetic" city/county structures. Data sources used: 1989 U.S. Census data, 1990 California Department of Finance data. Tax data reflects tax revenues, not specific tax rates, and excludes special district data.
  - For these peer comparisons, per capita data was computed to normalize for differences in population. Such per capita data is only one indicator, however. Local geographic, economic and demographic differences exist which may affect these peer city/county comparisons.
  - In this report, we will refer to the gross costs of a particular department as "expenses". After deducting revenues from users, state funding and federal funding, we will refer to "net costs" or the cost to taxpayers, meaning San Francisco taxpayers.

- **The city/county areas studied were:**

California (7)	Other U.S. (11)	
San Francisco	Atlanta	New York
Los Angeles	Baltimore	Philadelphia
Alameda	Boston	Portland
Sacramento	Chicago	Washington DC
San Diego	Dallas	
San Jose	Denver	
Orange	Miami	

Peer City/County Data - Tax Revenues Per Capita

- **San Francisco had the third highest level of tax revenues per capita in the group of peer cities studied*.**

Tax Revenue Per Capita
FY 1989

	Tax Per Capita		Tax Per Capita
New York	$1,974	Los Angeles	$726
Atlanta	1,124	Denver	653
San Francisco	1,100	San Jose	650
Boston	953	Portland	631
Philadelphia	923	Sacramento	627
Miami	811	Dallas	608
Baltimore	807	Chicago	605
Oakland	743	San Diego	441

* Washington DC was excluded from this comparison because of its special level of federal funding. Its tax revenue per capita was $3,636 in 1989.

Peer City/County Data - Health Services / Hospitals

- **San Francisco's net costs for health care were 19% of total tax revenue in 1989. By 1991, the net costs paid by SF taxpayers had risen to 23% of local taxes -- higher than any city studied.**

Net Cost, as % of Total Local Taxes -- Revenue to Expense Ratios

FY 1989

City	Net Cost as % of Taxes*	Revenue as % of Expenses	City	Net Cost as % of Taxes*	Revenue as % of Expenses
Boston	22	36	Sacramento	11	49
San Francisco	19	58	Atlanta	11	16
Denver	18	45	San Diego	10	43
Washington DC	15	15	Oakland	10	51
New York	14	34	Portland	7	60
Dallas	14	39	Philadelphia	5	65
San Jose	14	48	Baltimore	3	59
Los Angeles	13	0	Miami	1	97
Chicago	12	22			

* Includes AIDS funding but may not include all special district health funding.

Peer City/County Data - Social Services

- **San Francisco also spends more per capita than most cities studied for social services.**

Large California City/Counties Social Services Expense Dollars Per Capita - 1990	
Sacramento	409
San Francisco	372
Los Angeles	346
Alameda	268
Santa Clara	268
San Diego	246
Orange	194

Selected U. S. City/Counties Social Services Expense Dollars Per Capita - 1989	
Washington DC	1,376
New York NY	977
San Francisco	337
Denver	226
Philadelphia	193
Miami	150
Boston	138

Peer City/County Data - Judicial / Legal Administration

- **San Francisco had the second highest per capita costs of the seventeen U.S. city/counties studied for judicial and legal administration services.**

Judicial & Legal Administrative Expense
Dollars Per Capita - 1989

Washington DC	181	Miami	55
San Francisco	97	Dallas	52
Philadelphia	87	Chicago	47
Oakland	86	New York	45
Los Angeles	82	Denver	43
Sacramento	77	Baltimore	35
Atlanta	71	Portland	29
San Diego	71	Boston	10
San Jose	68		

Peer City/County Data - Fees for Selected Services

- **Peer data indicates that San Francisco has not collected as much fee revenue per capita as peer cities for certain types of services.**

Fees Per Capita - 1990

In Dollars

Police Service Fees		Construction Permits & Engineering Fees		Zoning Fees	
Los Angeles	15	Sacramento	47	San Diego	17
Orange	10	San Diego	34	San Francisco	8
San Diego	9	Los Angeles	20	Los Angeles	4
Santa Clara	7	Orange	20	Santa Clara	4
Alameda	5	Alameda	20	Alameda	3
Sacramento	5	Santa Clara	17	Orange	3
San Francisco	1	San Francisco	13	Sacramento	2

Overview - Findings

1. San Francisco faces some hard decisions to get the structural deficit under control.

- Steps to cut waste and inefficiency will not be enough to eliminate the deficits.
- San Francisco already collects the highest level of taxes per capita in California, and collects more than most U.S. cities/counties studied.
- Given their present deficits, funding from State and Federal sources will grow too slowly to fill the gap.
- Therefore, some re-balancing of the City's financial priorities is inevitable.

2. The City's service level priorities, particularly for health services and Muni service, are major contributors to the deficit problem.

- San Francisco's decision to devote a larger share of its budget to health services than any other city/county, combined with the rapid rate of growth in net taxpayer costs (16%/year) produces the single largest risk of future structural budget deficits.
- Muni's service levels and fare structure, which cost taxpayers $122 million in 1991, also contribute significantly to the risk of future structural deficits.

3. A number of system-wide operating problems in San Francisco also appear to be contributing to the deficit problem. These include:

- High-cost, salary formulas with automatic annual salary increases
- Expensive current practices for overtime pay, premium pay and worker's compensation claims
- A budget process where some departmental "deficits" reflect a "wish list", rather than a growth rate based on the prior year
- Lack of an effective monthly or quarterly financial "report card" for department managers
- Very complex fund accounting, with "off-budget" reserves and expenses
- Lack of productivity tools for managers
- Unmet needs for automation and computer systems
- The City's complex organization structure

Overview - Policy Options

1. **Consider requiring department managers to slow the growth rate of net taxpayer costs. This could include:**
    - Giving special attention to cost-containment programs for large-deficit programs such as Health/hospital services, Muni, Social Services
    - Reducing growth of net taxpayer costs in other areas to less than the inflation rate
    - Starting to use, and to report publicly, measures of service levels and net taxpayer cost of services

2. **Consider setting fixed levels for General Fund subsidies in some programs. Then, allow managers to manage staffing, fees and service levels to operate within that subsidy.**
    - Consider allowing managers to increase expenses if revenue growth would exceed the added costs.

3. **Consider increasing user fees and charges to peer or market levels for City/County services, efficiently delivered.**

4. **Consider giving managers productivity tools and asking them to improve productivity. These tools could include:**
    - Setting clearer goals for managers - possibly by using Management-By-Objectives
    - Using new performance appraisal systems for managers and employees, stressing productivity
    - Revising current rules to recognize higher levels of employee productivity in promotion decisions
    - Using new financial and operating reports to help managers track results

5. **Consider asking the Controller and Budget Director to develop quarterly management reports showing performance trends, actual expenses and budgets for each department in 5 key areas:**
    - Service level and workload measures
    - Full-time-equivalent staffing
    - Cost of service before revenue recoveries
    - Revenue recoveries
    - Net taxpayer cost of service

Longer Term Steps

1. **Consider using a long-range planning process to set multi-year priorities for departments.**

2. **Consider a review process for evaluating and managing any service level changes:**
    - Reviewing areas where cost or service levels are substantially above or below peer city levels
    - Evaluating impact of changing service levels to peer levels
    - Evaluating what steps would be needed to assist people affected by proposed service changes

3. Consider developing policies to encourage the growth of San Francisco's tax base, such as:

- Policies aimed at improving the City's economic vitality
- Policies aimed at increasing business growth and attracting new employers
- Policies that increase the value of taxable residential and commercial property

4. Consider organizing a joint study with employee organizations of alternatives to the City's present salary formulas.

5. Consider requesting an outside study of the City's organization structure and possible alternatives.

Economic Outlook & Tax Revenue Forecast for 1992-1996

- **A forecast based on the City's present policies shows very slow economic growth for San Francisco over the next five fiscal years.* As a result, future tax revenues are expected to grow more slowly.**
  - The number of jobs could grow less than 1% per year.
  - Population, which was 727,000 in 1991, could remain flat through 1996.

- **Reflecting the slow economic growth, the City's total tax revenues are expected to grow at only 6.2% per year, versus 8% per year during 1987-91.**
  - By 1996, the slower growth rate could cost the City about $120 million per year in tax revenues.
  - Tax revenues are forecast to grow 2.5% faster than inflation, forecast at 3.7%.
  - Taxes are likely to grow faster than inflation from turnover of real property, new assessments on property improvements and new equipment installed by businesses.

- **If taxes grow faster than the City's economy, there would be a tighter squeeze on existing property owners and businesses.**

- **The State of California, overall, is expected to grow more rapidly. Forecasts show the number of jobs growing at 2.2% per year, and the state's population growing from 1.2% to 1.8% per year.***

* Source: Data Resources Inc. and MFAC data

Tax Revenues - Findings

- **San Francisco appears to have a very high level of tax revenues compared to other U.S. or California cities and counties.**

- **SF collects more taxes per capita than any other major city/county in California.**
  - 56% more than Los Angeles; 90% more than the average large city/county in the state

- **SF collects more taxes per capita than almost any other major US or California city/county studied, ranking #3 out of 16 peers studied, after New York and Atlanta.**

- **Property taxes account for 53% of all SF tax revenues and, on a per capita basis, are higher than any major California city/county. This reflects the high value of commercial and residential properties.**
  - Property taxes - over $600 per resident - are 70% higher than Los Angeles and twice as high as the average large city or county in California.

- **SF's reliance on business taxes, excluding sales taxes, is higher than any other major US city/county studied.**
  - SF collects $280 in business-related taxes per resident, versus an average of $80 per resident for 16 other major US and California city/county areas studied.

- **SF's reliance on sales taxes is near the average for other US city/counties, but relatively high in California.**

Tax Revenues - Policy Options

- **To increase tax revenues, consider adopting long-term strategies that increase the tax base.**
  - Encouraging the development of new, taxable residential housing; some studies suggest that the City would add 2 new jobs for every 3 new residents
  - Developing a quicker, more flexible planning process to encourage new employers and to avoid loss of premium wage jobs to other communities
  - Simplifying the planning code
  - Encouraging long-term land use studies of the City's few remaining undeveloped land areas; examining options for the Port of San Francisco that would increase the City's tax base

- **Consider automating the operations of the Assessor's office and providing adequate professional staff, to allow for in-depth analysis of more properties when they change owners.**
  - Example: automating the access to data in the Bureau of Building Inspection on building renovations and on new equipment installed in buildings

- **Simplifying the business tax structure**
  - Taking steps to simplify taxes on businesses would have a positive impact. It would help retain existing employers and attract new employers.

Muni Railway - Findings

1. **Muni provides three times as much bus service per capita as the average peer system studied.**
   - The bus systems studied included New York City, Boston, Philadelphia, Washington DC, Houston, Seattle, AC Transit and Los Angeles.
   - Muni provided 4.5 vehicle revenue hours/capita versus an average of 1.4 hours for the peers studied.
   - Muni provided twice as much service as New York - which was second in service levels.

2. **Muni's operating expenses per vehicle hour appear to be in line with the peers studied, although some systems had lower costs.**
   - Philadelphia, Houston and AC Transit all had lower operating costs per vehicle hour.
   - Muni drivers' compensation is among the highest in the nation - a compensation structure built into the City Charter.

3. **As a result of Muni's very high service levels and infrequent fare increases, its operating deficit has grown considerably.**
   - In 1991, the deficit was $122 million, after allowing for all federal and state funding and all passenger revenues, compared to $102 Million in 1987 and $59 Million in 1982.
   - In percentage terms, Muni riders paid about 29% of the 1991 cost; federal and state funds paid 26% and taxpayers paid the remaining 43% - a subsidy to Muni equal to $172 per resident.

4. **Proposals from Muni management to raise fares or cut service levels have been turned down by the PUC or the Board of Supervisors in recent years.**

Muni Railway - Policy Options

1. **Consider selected revenue increases to reduce the Muni deficit subsidized by taxpayers, such as:**
   - A new, premium fare for express service. Using $1.25 per trip, $40 per month, would add $4 MM/yr to revenue.
   - Higher youth and senior fares. Using 40 cents per ride, $10 per month, would add $5 MM/yr.
   - Using special property benefits assessments in transit-dependent commercial areas ($15 MM)
   - Assessing transit impact fees for residential and commercial developments ($3 MM)
   - Raising bridge tolls on the South Bay to $2 ($5 MM)

2. **In the budgeting process, consider setting a specific subsidy level which the City agrees to provide to Muni from tax revenues.** Then, let Muni management make the operating decisions needed to live within that subsidy.
   - This would allow Muni management more flexibility to make service reductions, fare adjustments and personnel decisions to obtain savings.

3. **Consider charter amendments and MOU changes to reduce Muni's high compensation costs. Consider changes to:**
   - The linkage of Muni driver pay to the two highest paid US transit systems. Savings of $11 MM could result from using the average pay levels of the five Bay Area counties.
   - The taxpayer-financed trust fund which now gives Muni drivers special employee benefits not received by most City employees. Savings of up to $2 MM could result if Muni benefits were the same as benefits of other City employees.
   - Lengthen the 36 month pay progression ($2 MM)

4. **Consider implementing an effective proof of payment system for passengers.**

MUNI RAILWAY

SUMMARY OF POLICY OPTIONS

a = approval needed

	FINANCIAL BENEFIT TO CITY (IN $ MILLIONS)						ACTION REQUIRED					
	REVENUE ENHANCE-MENTS	SERVICE CUTS	EFFICIENCY: CHG PROCESS, ORGANIZATION	EFFICIENCY: SYSTEMS INVESTMENT	OTHER	LABOR, MOU CHANGES	DEPT OR COMMISSION	MAYOR	BD OF SUP-ERVISORS	CHARTER CHANGE	STATE & FEDERAL	OTHER ACTION
1. Raise revenues to peer levels												
A. Set a Premium Express fare $1.25 per trip, $40 per Month	4						4	a	a			
B. Raise Youth/Senior Fare to $.40 per trip, $10 per month	5						5	a	a			
C. Add property tax assessments for transit services in transit-dependent commercial areas	15							a	15			
D. Add transit impact fees for residential/commercial develop-ments	3							a	3			
E. Raise South Bay bridge tolls	5										5	
2. Service Reduction Selective cuts - 2% of costs		4					4	a	a			
3. Amend Charter, MOUs												
A. End linkage of pay to two highest paid transit systems in USA						11		a	a	11		
B. Implement effective proof of payment system						2	2	a	a			
C. Eliminate trust fund. Pay same benefits paid to other employees						2		a	a	2		
D. Extend 36 month pay progression						2		2	a			
TOTAL $53	32	4				17	15	2	18	13	5	

Health & Hospitals - Findings

- **San Francisco now spends 23 cents of every local tax dollar on health/hospital services. This is more than any other large U. S. city/county studied, and twice the average of all U. S. cities/counties.**

- **Net costs to local taxpayers for health/hospital service have been growing at 16% per year over the past four years.**

- **As the graph on the facing page indicates, San Francisco's net costs per capita for health services ($165) are higher than the average gross costs ($147) of the nine peer California counties studied.**
  - The average net costs per capita for the nine counties was $22.

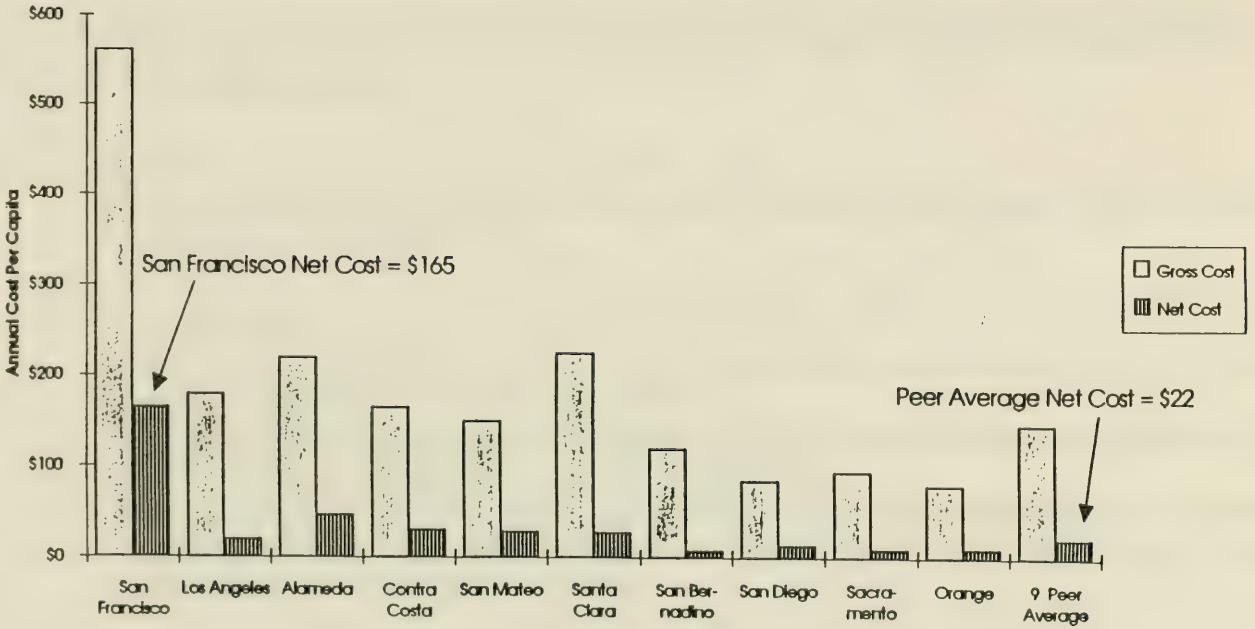
- **While San Francisco's demographic base is weighted toward those needing City/county health services, we have made a policy of providing more service, even if those demographics are taken into account.** Examples: special clinics such as dermatology, and higher staffing ratios.

SOME FACTS:

S. F. General:

- **Net taxpayer costs, at $106 per taxpayer, are four times the peer average**
- The high net cost is driven by two factors. First, we treat about twice as many patients per capita as other cities. Second, almost 1/2 our patients are uninsured, versus 25% for peer counties.

City & County of San Francisco
PER CAPITA HEALTH CARE COSTS VS NINE PEER COUNTIES
1990



Based on: State AB8 Health Services Data for 1990. State Mental Health Department data for 1989.

Mental Health:

- The prevalence of serious mental disorders is almost 1/3 higher per 1,000 residents in San Francisco than in peer counties. However, we serve twice as many people per 1,000 residents as peer counties.

- Even if we adjust for our mix of patients, mental health costs per patient appear to be 20% higher in San Francisco, due to the way we deliver mental health services. This costs local taxpayers an extra $11 million per year.

CPHS:

- Outpatient clinics provide some similar services to SF General Outpatient Clinics, at roughly one-half the cost per patient of SF General.

Laguna Honda:

- None of the peer city/counties studied in California or elsewhere in the U. S. provide the same level of long-term care service offered by Laguna Honda.
- The nearest peer comparisons we could find were with private sector skilled nursing homes. A few other counties do operate smaller long-term care facilities.
- The operating costs per patient day at Laguna Honda appear to be substantially higher than in private sector facilities. However, the acuity level of Laguna Honda patients also appears to be more severe than for patients in private sector facilities.

Health & Hospitals - Policy Options

S.F. General

1. **Increasing insurance reimbursements - through investing in information systems and staff to qualify more patients for government and private insurance coverage**

2. **Expanding the use of the enterprise concept, allowing SF General to keep and reinvest a portion of new revenue dollars created**

3. **Consider re-negotiating the University of California affiliation agreement to gain effective control over staff and services provided.** Identify services provided by UCSF to patients who are the City's responsibility and negotiate appropriate staffing and reimbursement for these services.

4. **Consider proposing a charter amendment to end the linkage of nurses' pay to the highest-paying employer in the six Bay Area counties.**

5. **Evaluate current nurse/patient ratios.**

6. **Investigate consolidation of some outpatient services into CPHS clinics.**

Health & Hospitals - Policy Options (Continued)

Mental Health

7. Study delivery system changes that could bring costs per patient into line with peer counties.

8. Investigate clinic consolidation.

CPHS

9. Consider integrating AIDS programs into the CPHS system to reduce overhead and make available funds go further.

Laguna Honda

10. Consider pursuing all available options for maintaining federal waivers to continue using the present large wards.

11. Consider less costly alternatives than the proposed $500 million capital program for Laguna Honda.

- **Evaluate alternatives for financing needed improvements.** If the proposed $500 million bond issue is sold to rebuild Laguna Honda, annual debt service requirements could add $41 million of additional costs per year to local taxpayers.

HEALTH

SUMMARY OF POLICY OPTIONS

a = approval needed

	FINANCIAL BENEFIT TO CITY (IN $ MILLIONS)											
	REVENUE ENHANCE-MENTS	SERVICE CUTS	EFFICIENCY: CHG PROCESS, ORGANIZATION	EFFICIENCY: SYSTEMS INVESTMENT	OTHER	LABOR, MOU CHANGES	ACTION REQUIRED: DEPT OR COMMISSION	ACTION REQUIRED: MAYOR	ACTION REQUIRED: BD OF SUP-ERVISORS	ACTION REQUIRED: CHARTER CHANGE	ACTION REQUIRED: STATE & FEDERAL	ACTION REQUIRED: OTHER ACTION
SF General:												
1. Increase insurance revenues using staff/info systems	10						10					
2. Renegotiate UC agreement to improve staff/service control			1			1	2	a	a			
3. Consolidate Outpatient Services into CPHS clinics			5				5					
4. End linkage of nurses' pay to highest pay in Bay Area						5		a	a	5		
Mental Health												
5. Change delivery system, bring costs/patient to peer level		10					10	a	a			
Laguna Honda												
6. Actively pursue continuation of federal waivers Note: If waivers are not continued, to replace Laguna Honda, estimated debt service costs would be $41 million/yr to service $500 million in 6.6% bonds over 25 years											a	
32	10	10	6			6	27			5		

Social Services - Findings & Policy Options

- **The net taxpayer cost of Social Services has been growing at 7% per year for the past four years, reaching $ 119 million in 1991.**

- **General Assistance programs account for 60% of these costs; homeless programs for only 10%.**

- **General Assistance cases per capita are twice as high as in Los Angeles and three times the average large California City/County.**

- **Caseworkers in SF carry excessive caseloads and therefore appear to have less time to help their clients or detect fraud.**

Policy Options:

1. **Consider an investment in information systems and in caseworkers. It appears that such an investment could significantly reduce the growth in Social Service costs by helping ensure that only eligible clients receive aid.**

   - Adding caseworkers to reduce caseloads would also provide more time to help eligible clients become enrolled in state and federal programs, reducing San Francisco's costs for General Assistance.

2. **Consider merging of General Assistance and Food Stamp programs. Savings from such a step are estimated to be $1 million per year.**

SOCIAL SERVICES

SUMMARY OF POLICY OPTIONS

a = approval needed

	FINANCIAL BENEFIT TO CITY (IN $ MILLIONS)						ACTION REQUIRED					
	REVENUE ENHANCE-MENTS	SERVICE CUTS	EFFICIENCY: CHG PROCESS, ORGANIZATION	EFFICIENCY: SYSTEMS INVESTMENT	OTHER	LABOR, MOU CHANGES	DEPT OR COMMISSION	MAYOR	BD OF SUP-ERVISORS	CHARTER CHANGE	STATE & FEDERAL	OTHER ACTION
1. Add caseworkers to qualify GA recipients for state or federal aid programs.	2						2	a	a			
2. Technology investment to increase worker efficiency.				2			2	a	a			
3. Merge administration of GA and Food Stamps programs.			1				1					
TOTAL $5	2		1	2			5					

Police - Findings

- **The cost to taxpayers of police services was $195 million in 1991, and is growing at the rate of about 3% annually.**

- **The 4 -10 plan appears to be at least $4 million more expensive that the prior 5 day, 8 hour shift plan, after considering the overtime costs and the numbers of officers on the streets.**

- **When compared to peer cities, San Francisco appears to have a very high number of police stations.**
  - For example, we serve a 24-hour average of 1.1 million people, including commuters and tourists, with 9 stations in 46 square miles. The daytime population is 1.3 million; at night it's 900,000.
  - That's one station per 122,000 people and one for every five square miles.
  - San Jose serves almost 800,000 people and 158 square miles from one station.
  - Oakland serves about 350,000 people and fifty square miles per station.

- **When the stations were originally built, police officers patrolled on foot. Now police patrol in vehicles which are radio-dispatched from a central location.** Studies conducted by the SF Police department show the same levels of police protection on the streets could be provided with three stations. This would eliminate the need for 6 captains and 24 lieutenants. Total savings from closing six stations are thus estimated at $6 million per year.

- **San Francisco uses highly trained sworn officers, who are far more expensive, to perform many jobs which could be done by civilians.**
  - Peer cities use far more civilian employees than we do. They average 33 civilians per 100 employees while we have only 20 civilians per 100 employees.

- **The Senior Escort Service costs $32 per trip for walking escorts, and $178 per trip for driving escorts.** Civilian City employees now provide such services.

Police - Policy Options:

1. **Explore cost effectiveness of alternative scheduling plans for police officers. Savings could exceed $4 million.**

2. **Consider privatizing the Senior Escort Service.** It appears the same services could be provided using private transportation services and social agencies, saving up to $2 million per year.

3. **Consider using private sector janitorial and auto maintenance services, saving $1.2 million/year.**

4. **Consider reducing the number of district police stations to three, and reducing the number of Captains and Lieutenants. Estimates indicate potential saving of up to $6 MM/yr.**

4. **Consider requesting an outside study of the pros and cons of having the Parking Control officers brought back under Police Department management.** If this is proposed, possibly the other Parking & Traffic functions could be reassigned to departments under the Chief Administrative Officer.

5. **Evaluate an increase in the use of civilian employees.** It appears the department could save up to $14 million if, through attrition or other steps, it shifted about 300 positions from uniformed to civilian employees, with an offsetting reduction in the number of uniformed employees. Alternatively, if the City chose to forego some of these cost savings, a higher civilian ratio would put more officers on the street.

POLICE

SUMMARY OF POLICY OPTIONS

a = approval needed

	FINANCIAL BENEFIT TO CITY (IN $ MILLIONS)						ACTION REQUIRED					
	REVENUE ENHANCEMENTS	SERVICE CUTS	EFFICIENCY: CHG PROCESS, ORGANIZATION	EFFICIENCY: SYSTEMS INVESTMENT	OTHER	LABOR, MOU CHANGES	DEPT OR COMMISSION	MAYOR	BD OF SUPERVISORS	CHARTER CHANGE	STATE & FEDERAL	OTHER ACTION
Short Term												
A. Review 4-10 scheduling; revise overtime procedures			4				4	a				
B Privatize Senior Escort Service		2					2					
C. Shift remaining parking complaints to Parking Department			0.5					0.5				
D. Utilize private sector janitor and maintenance contracts			1				1	a	a			
Long Term												
A. Increase use of civilians to peer city level			14				14					*
B. Reduce number of district stations from nine to three, and eliminate 6 captain and 24 lieutenant positions used at the stations closed.			6						6			*
TOTAL $27.5		2	25.5				21	0.5	6			

* City Attorney

Sheriff - Findings & Policy Options

- **We staff at seven prisoners per deputy. This is comparable to peer counties. Jail overcrowding, however, remains a serious problem.**

- **Seventy percent of the prisoners in the county jail have not yet had a trial, reflecting delays in the court system.**

- Dozens of other prisoners taking up jail cells are illegal aliens. Some law enforcement officials believe the City's Sanctuary Ordinance may not allow them to collect citizenship information for use by the INS. The INS would use such data to deport illegal aliens.

- San Francisco is now renting jail cells from Alameda County at an annual cost of $4.6 million.

Policy Options:

- **Evaluate use of a new computerized information system to replace the present court management system that appears to be obsolete.**

  - Significant potential savings could result through improved and speedier management of court cases, reduced police overtime for testimony and improved cost recovery.

- **Consider providing clarification to police and sheriff's officers on rules for collecting citizenship data from detainees.**

Courts - Findings & Policy Options

- **The court system is currently collecting only about 64% of the parking and traffic fines imposed.**
  - Boston, using a private collection firm, collects about 83% of its citation revenue. Many other large cities also use private collection firms successfully.
- **Court-related activities are involved in about 35% of police officer overtime.**
- **Court delays have contributed to the present overcrowding in the County jail, as noted above.**
- **The City pays a portion of the cost for the state's Superior Courts.**

Policy Options:

1. **Consider transferring the collection of traffic fines to a private firm specializing in providing such services to Cities.**
   - Potential new revenues from improved collections are estimated at $15 million/year.
2. **Consider transferring the Superior Court costs to the state of California.**
   - Such a transfer would save $4 million/year.

COURTS

SUMMARY OF POLICY OPTIONS

a = approval needed

		FINANCIAL BENEFIT TO CITY (IN $ MILLIONS)						ACTION REQUIRED					
		REVENUE ENHANCE-MENTS	SERVICE CUTS	EFFICIENCY: CHG PROCESS, ORGANIZATION	EFFICIENCY: SYSTEMS INVESTMENT	OTHER	LABOR, MOU CHANGES	DEPT OR COMMISSION	MAYOR	BD OF SUP-ERVISORS	CHARTER CHANGE	STATE & FEDERAL	OTHER ACTION
Use private firm to collect fines		15						15	a				
Transfer Superior Court costs to State of California				4								4	
TOTAL	**$19**	15		4				15				4	

Public Works, PUC, Planning & Water - Findings

- **Crafts workers automatically receive 10% more per hour than the prevailing flat hourly rates in the Bay Area for their craft, even though City workers have full-time, not seasonal employment.**

- **San Francisco has, by far, the largest Bureau of Architecture of any California city/county studied.**
  - Staff has grown from 37 to 82 over the past five years.
  - The Civil Service salary schedule for architects appears to pay from 6% to 42% more than the private sector for architectural jobs sampled.

- **City procedures also make it difficult for departments to contract out in a timely fashion.**

- **The Planning Department requires far more time to review Environmental Impact Reports than peer cities do.** Some of the delay can be attributed to the intensive review levels requested by citizens.

- **The Hetch Hetchy Water system currently faces expensive regulatory requirements for filtering its already pure water.** The cost of a filtration system could exceed $400 million. Annual debt service on bonds for this amount is estimated at $33 million, of which San Francisco's share is estimated at $11 million per year.

Public Works, PUC, Planning & Water - Policy Options:

1. **Consider a charter amendment to revise the charter language which led to the automatic 10% excess in crafts wages. The potential saving is over $5 million per year.**

2. **The Planning department could transfer more single-family plan review work to the Building Department.**
    - This could free up salary funds that Planning could use to give more competitive service in reviewing EIR's. The Building department would also be able to charge fees to cover its costs.

3. **The City could request an outside study to evaluate what types of architectural and engineering work could be done more economically by the private sector, including minority and female contractors, versus in-house.**

4. **Consider an active campaign with legislators to obtain appropriate relief from the filtration requirements for Hetch Hetchy.**

PUBLIC WORKS, PUC, PLANNING & WATER

SUMMARY OF POLICY OPTIONS

a = approval needed

	FINANCIAL BENEFIT TO CITY (IN $ MILLIONS)						ACTION REQUIRED					
	REVENUE ENHANCEMENTS	SERVICE CUTS	EFFICIENCY: CHG PROCESS, ORGANIZATION	EFFICIENCY: SYSTEMS INVESTMENT	OTHER	LABOR, MOU CHANGES	DEPT OR COMMISSION	MAYOR	BD OF SUPERVISORS	CHARTER CHANGE	STATE & FEDERAL	OTHER ACTION
1. Cut Operating Expenses												
A. Eliminate extra 10% over market pay rates now given to crafts workers						5		a	a	5		
B. Develop simpler procedures for contracting out small jobs.			5				a	5	a			*
2. Increase revenues												
A Move more single family project approvals to Building Dept, speed processing, and have fees cover costs.	1						1	a				
B Expand fee structure for expedited processing; charge fees that cover costs of planning reviews	1						1	a	a			
3. Avoid future debt service												
A Lobby with state/federal gov't to obtain relief on filtration requirements for Hetch Hetchy's already clean water. Savings reflect City's share of debt service on $400 Million of 25 year bonds at 6.6%.			11				a	a			11	
TOTAL $23	2		16			5	2	5		5	11	

* Civil Service Comm, Human Rights Comm, City Attorney

Park & Recreation - Findings & Policy Options

- **Revenues cover 40¢ of every dollar of cost.**
  - After deducting revenues, net costs per capita are below the peer average for large U. S. cities.
- **Costs during the past five years rose at 3.8% - below the rate of inflation.**
  - However, labor costs are $45,000 per full-time equivalent (FTE) employee versus an average of $35,000 for 3 California peers.
- **A number of services are priced below market levels.**
  - Marina charges are only 67% of market. There's a five year waiting list for berths.
- **Some Park facilities and equipment are decaying and need major capital investment.**
- **The cost of library services is about $30 per capita - same as the California average.**
- **The cost of museums is $10 per capita versus a California average of $8.**

Policy Options:

1. **Rec and Park has a number of opportunities for increasing revenue. If the department is encouraged to pursue them, the added revenue could be as much as $9 million a year.**

PARK & RECREATION

SUMMARY OF POLICY OPTIONS

a = approval needed

	FINANCIAL BENEFIT TO CITY (IN $ MILLIONS)						ACTION REQUIRED					
	REVENUE ENHANCE-MENTS	SERVICE CUTS	EFFICIENCY: CHG PROCESS, ORGANIZATION	EFFICIENCY: SYSTEMS INVESTMENT	OTHER	LABOR, MOU CHANGES	DEPT OR COMMISSION	MAYOR	BD OF SUP-ERVISORS	CHARTER CHANGE	STATE & FEDERAL	OTHER ACTION
1. Raise Fees to Match Value												
A. Raise golf fees for preferred tee times.	0.6						0.6	a	a			
B Raise marina fees to market level	0.4						0.4	a	a			
C. Charge $2.00 zoo admission for children over 2 as Oakland does	0.2						0.2	a	a			
D Raise children's pool fee to $.75	0.1						0.1	a	a			
E. Charge fee for event rentals	0.1						0.1	a	a			
2. Add new revenue sources												
A. Parking fees for special events	0.5						0.5	a	a			
B. Increase usage of Kezar	0.4						0.4					
C. Increase advertising space at Candlestick	0.2						0.2					
D Concession for tennis lessons	0.1						0.1	a	a			
3. Consider major recreation attraction e.g. Seaworld, Driving Range, etc. on park land	1						1	a	a			
4. Encourage development of group "Friends of Rec/Park"	3						3	a	a			
5. Cut staffing costs Use fewer gardeners, more helpers to reduce average cost to $40K per FTE						2	2	a	a			
TOTAL $8.6	**6.6**					**2**	**8.6**					

Assessor, Treasurer & Tax Collector - Policy Options

1. **Consider giving the Assessor resources to develop a core of well-trained professionals, provide them with improved information systems support and good analytical tools.**
    - This would allow the Assessor to target high dollar value cases and win them.
    - With a new information system and personal computers, increased appraisals could be negotiated, producing added tax revenues of up to $25 million per year.
    - This is a 5% increase in tax revenues on the present $480 million base.

2. **Consider giving the Assessor resources to develop a property-based information system to link the Assessor, the Tax Collector, the Bureau of Building Inspection and the Controller's ISD group.**
    - This system - and the linkages - appear to be needed to ensure that properties are not under-assessed, and to support the daily work of the Assessor's and Tax Collector's departments.
    - The City might benefit by putting a specific professional in charge of this project, not a committee.
    - Such a City-wide Property Management and Collection system appears to be urgently needed.

3. **Consider streamlining and automating the work of assessing personal property.**
    - More training of auditors, increasing field audits and focusing on the higher dollar value cases.
    - Performing regular management audits of the process.

4. **Consider providing more personal computers and training in analytical tools to employees in the Treasurer's and Tax Collector's departments.**

5. **Consider treating the Tax Collection Division as a business operation, not just a cost center.**

Retirement System - Findings

- **The Retirement system has been reducing pension costs as a percent of covered payroll.**
    - Pension contributions of $219 million in 1987 were 31.6% of payroll. Contributions of $245 million in 1991 were 21.8% of payroll. This level still appears somewhat higher than peer cities, due to the high cost of San Francisco's old plans for police, fire and miscellaneous employees.

- **The Retirement System's portfolio had a total return about 1% lower than other large public and corporate pension funds during the past five years.**
    - The fund has had a low percentage of its assets in equities - ranging from 31% to 34% - and over 60% of its assets in fixed income securities during this period.

- **To make its position clear on conditions in South Africa, the City has elected to invest its pension funds in companies that have no investments there.**
    - It appears that this policy has resulted in a loss of 1% per year in the annual yield on equities versus market averages, as measured by the Standard & Poor 500 index. Assuming this trend continues, the future cost of this policy would be $15 million per year.

- **Worker's Compensation claims have risen to very high levels and so have the costs involved.**
    - San Francisco's employees filed over 8,000 claims in 1991, one for every three employees.
    - The total cost of Workers Comp claims was $36 million in 1991 and may reach $40 million in 1993.
    - - A major cause of these costs is the City's inability to recruit experienced claims adjusters.
    - There is a shortage of such workers, and the City workloads are double those in the private sector.

Retirement System - Policy Options

- **We support the Retirement System's proposed use of an outside expert for a study to recommend an updated asset allocation strategy.**

- **If the study recommends increasing equity levels, as we expect it may, the Retirement system could consider raising equity levels in stages without waiting for "ideal" market conditions.**
    - The Retirement Board has been considering raising the equity level for some time, but may have been deterred by conditions in capital markets.
    - If the Retirement Plan improves the whole portfolio's total return to peer averages, this would mean a yield increase of eight tenths of 1% - an increase of over $40 million per year.

- **When political conditions in South Africa allow it, the City could consider revising its South Africa limitations on the pension fund. In the future, the City may wish to avoid political restrictions on pension investment decisions which affect pension yields.**
    - The Retirement System could pursue important social goals through its existing policy of joining with other pension funds in actively exercising its shareholder rights.

- **We support the proposed plan to bring in a private sector TPA (Third-Party Administrator) to manage about half the workload of workers' comp claims.**
    - We estimate that net savings by the TPA would exceed $4 million in the first full year of operation.
    - This should cut workloads for the City's claims adjusters to more normal levels, and also improve their control of claims expense. If this occurs, the savings would be larger.

ASSESSOR, TAX COLLECTOR, RETIREMENT SYSTEM

SUMMARY OF POLICY OPTIONS

a = approval needed

	FINANCIAL BENEFIT TO CITY (IN $ MILLIONS)						ACTION REQUIRED					
	REVENUE ENHANCE-MENTS	SERVICE CUTS	EFFICIENCY: CHG PROCESS, ORGANIZATION	EFFICIENCY: SYSTEMS INVESTMENT	OTHER	LABOR, MOU CHANGES	DEPT OR COMMISSION	MAYOR	BD OF SUP-ERVISORS	CHARTER CHANGE	STATE & FEDERAL	OTHER ACTION
Assessor												
A. Develop a core of well-trained professionals. Target high value properties. Develop a property-based information system linked to tax collector, BBI & ISD. Assign a professional to "take charge."				25			25	a	a			
B. Streamline & automate work of assessing personal property.				3			3					
Tax Collector												
A. Implement property-based information system with Assessor to speed-up tax collection. Also, use PC's to automate dept.				2			2	a	a			
Retirement System												
A. Increase fund yield .8% to peer levels over time by revising mix of investments used.	40						40					
B. Hire third party administrator, (a TPA) to reduce excessive claims costs.			4				4	a	a			
TOTAL $74	**40**		**4**	**30**			**74**					

City-Wide Issues: Planning & Productivity - Findings

- **The City's operational planning process is limited in scope and lacks a multi-year focus.**
    - The budget process is the only planning done in many departments.
    - The City tends to focus on cutting positions, while departments tend to "protect" existing operations.
    - This process appears to leave relatively little time for longer-term issues, such as:
        - Finding alternative service delivery methods
        - Investing to increase long-term productivity
        - Re-examining the need for and type of services provided
        - Public discussion of alternatives

- **In some departments, planning is very limited, due to:**
    - Lack of clear operating goals and priorities for departments, linked to City goals
    - Not studying the "customer's" view of services provided
    - Lack of productivity measures or workload data
    - Infrequent comparisons of service levels, staffing, productivity to other cities
    - Lack of mutual agreement between departments and individual managers on goals and priorities

- **Individual managers are not encouraged to manage for increased productivity.**

- **San Francisco lacks an effective, City-wide position control system for planning and controlling personnel costs.**

Planning & Productivity - Policy Options

1. Giving managers productivity tools and asking them to improve productivity by:

- Setting clearer goals for managers - possibly using Management-By-Objectives.
- Using new performance appraisal systems for managers and employees, stressing productivity.
- Revising Civil Service procedures to recognize higher levels of employee productivity in promotion decisions.
- Requiring data on workload, staffing and performance measures in budget submissions.
- Using new financial and operating reports to help managers track results.
- Allowing managers more flexibility to reallocate budget funds to meet program goals.

2. Requesting a study of the City's organization structure and possible alternatives.

- Review the opinions and needs of various stakeholder groups involved.
- Compare our structure to the organization structures of peer cities and counties.
- Study the feasibility, potential benefits and savings of reducing the number of commissions.
- Include consideration of a strong mayor plan and a City manager plan.
- The objective would be to find ways to make San Francisco's government more cost effective and more able to meet the needs of its residents.

3. **Doing more long-range planning.**

- Scheduling a less formal, long-term planning period each year to review long-term issues - possibly in the Fall.

- Encouraging departments to study peer cities. Such peer studies would examine alternative service levels and delivery methods and the staffing and cost results.
- Asking departments to evaluate how the need for specific services may have changed.

4. **Starting a new management-by-objectives program.** Each manager could be required to propose specific objectives for review and approval, on a semi-annual or annual basis. To keep the system flexible, allow managers to change the types of goals set and the performance measures used.

5. **Making it easier for departments to contract out where savings exist.** This would mean reducing the number of approvals needed for certain types of contracts or smaller contracts.

City-Wide Issues: Personnel Management - Findings

- **The City's salary setting formulas lead to expensive, automatic, annual pay raises.**
  - Crafts workers are paid 10% above prevailing flat hourly rates in the Bay Area due to an adverse court interpretation of unclear charter provisions. This increases salary costs by $5 million per year.
  - Other City positions, such as architects, also appear to be paid more than prevailing Bay Area levels.
  - Current salary formulas cover only base pay. Benefits and premium pay are not covered.

- **The City's Charter includes expensive special pay plans for some employee groups.**
  - Pay for nurses is based on the highest-paying employer in the Bay Area, not the Bay Area average.
  - Pay for Muni drivers is based on the two highest-paying transit systems in the U. S.
  - "Pay Equity" pay will cost the City over $35 million in 1992 and is based on questionable procedures.

- **Premium pay appears to be excessive in some departments.**
  - The City pays "word-processing" premiums totaling about $500,000/year to clerical workers, even though word-processing equipment is now standard in most offices.
  - Uniformed police and fire employees receive the pay level of their supervisor each time they fill-in for their supervisor, even for just an hour or two. This practice has become standard in recent years.
  - There are now over 100 different pay premiums, adding over $25 million/year to personnel costs.

- **The City has over 2,000 job classifications for its 25,000 employees.**
  - The large number of classifications leads to lengthy delays in preparing and giving exams.
  - As a result, departments fill many positions with temporary employees. This limits promotional opportunities for existing City employees.

- **Job performance is not a significant factor in determining an employee's eligibility for promotions.**
  - For nearly all employees, eligibility for promotion is based on exam scores, not job performance.
  - There are no incentives for employees with outstanding or superior performance.
  - Only for employees involved in disciplinary actions is performance considered.

- **The current performance evaluation system is not effective and is ignored by many departments.**
  - Many employees want to see job performance count in promotion decisions, but do not want to use the present system for this purpose.

- **The City now lacks basic workforce statistics needed for effective personnel management, control of personnel costs and labor negotiations.**
  - Obtaining such data as overtime costs, premiums, sick pay usage or full-time-equivalent (FTE) staffing by department often requires laborious manual processing.
  - The City's labor negotiators need rapid access to such personnel data for successful collective bargaining. Now, the employee organizations have much better City employee data than the City's labor negotiators.

City-Wide Issues: Personnel Management - Policy Options

1. **Consider preparing a charter amendment to revise the unclear language on pay formulas for flat hourly rate classifications. If approved by the voters, this could save $5 million annually.**

2. **Consider organizing a joint study with employee organizations of alternatives to the City's present salary formulas.**

3. **The City could strengthen its performance evaluation systems.** A new system for managers has just been introduced. Next, an improved system could be developed for rank and file employees.

4. **Consider supporting the installation of a personnel management data base.** The City recently acquired Oracle software that includes a personnel management module with strong capabilities. However, added resources would be needed, starting in FY 1993, to install this software and its position control system. These tools can improve City-wide management of personnel costs and give needed support for the City's negotiators in collective bargaining.

5. **Consider using a classification systems consultant to upgrade the City's classification system.** The work would include developing an overall classification structure that would help the City cut the number of classifications from 2,000 down to 1,000.

6. **Consider introducing employee "empowerment" programs for City workers.** Many organizations are using such programs, which aim to increase efficiency and make employees' jobs more satisfying by creating interdepartmental groups to solve operating problems. Such groups would include employees at all levels who are familiar with the operation studied.

San Francisco

Mayor's Fiscal Advisory Committee

Task Force

On

Long Term Revenue and Cost Trends

Overview

Table of Contents

	Page
Task Force Goals, Strategies, and Organization	1
Findings	4
Structural Deficit Outlook	18
Policy Options	19
Appendix	23

Organization

Team	Department Studied
1. Tax Revenues	
2. Public Transportation	MUNI, Airport, Port
3. Public Protection	Police, Fire, Sheriff, Courts, District Attorney, Public Defender
4. Public Works	Public Works, Hetch Hetchy, PUC, Engineering, City Planning, Parking & Traffic
5. Health Services	Central Office, Mental Health, SF General, Laguna Honda
6. Social Services	Social Services
7. Recreation & Parks	Recreation & Parks
8. Administration & Finance	Assessor, Treasurer, Tax Collector, Controller, Purchaser, Retirement

Findings

1. San Francisco has enjoyed a high and rapidly growing revenue stream from its tax base, and from federal and state funds.

	Fiscal 1991 $MM		1987–91 Growth Per Year
Tax Revenues	$917	MM	8%
Federal, State Subsidies	548	MM	9%
Total Taxes & Government Subsidies	$1,465	MM	9%

Findings

3. Operating expense growth rates have been rapid whether measured in terms of gross costs of services or in terms of net services costs to taxpayers (operating expenses net of departmental operating revenues and government subsidies).

	Total Expenses		Estimated Net Taxpayer Cost (Expenses Net of Revenues/Subsidies)	
	1991 $MM	4 Year Growth Rate	1991 $MM	4 Year Growth Rate
Health/Hospitals	$ 519	10%	$213	16%
Public Protection	473	4%	451	4%
Transportation	437	6%	86 *	6%
Public Works	310	5%	(110)	3%
Social Services	306	8%	119	7%
Admin/Finance	148	6%	145	6%
Culture/Rec	122	6%	89	6%
Total	$2,315	6%	$993	8%

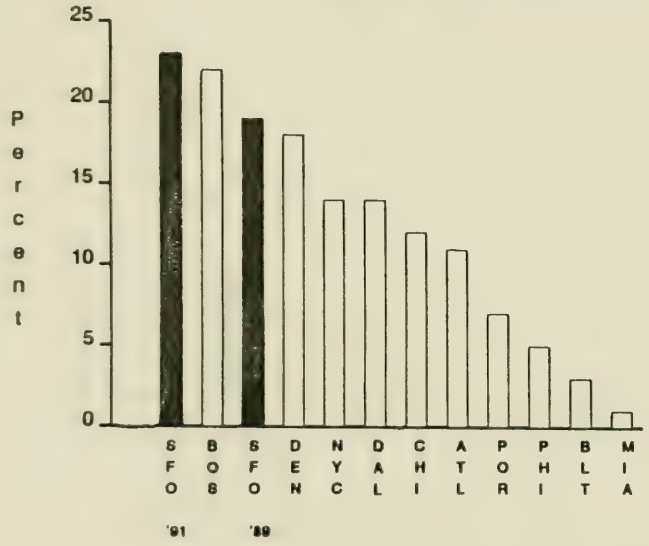
* Includes Muni net taxpayer cost of $124MM.

Findings

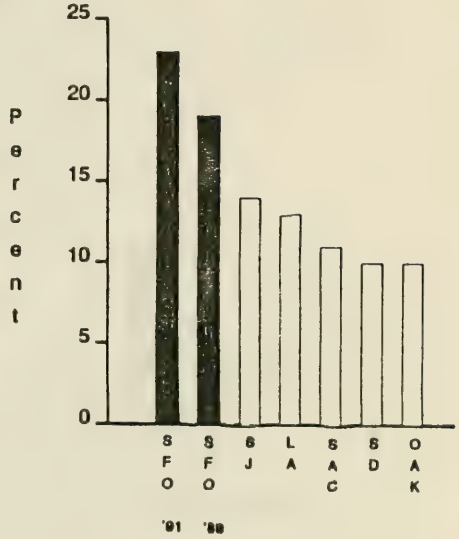
5. San Francisco has used its high revenue levels to deliver a "richer mix" of services than most city/counties studied.

   A. In 1991, San Francisco devoted more tax dollars to health/hospital services than any U.S. city/county studied.

<u>% of Taxpayer Funds Devoted to Health Services/Hospitals</u>
(1989)



U. S. Sample

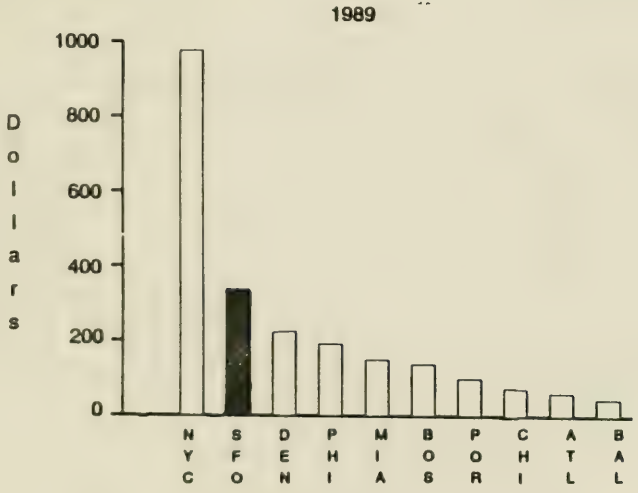


California Sample

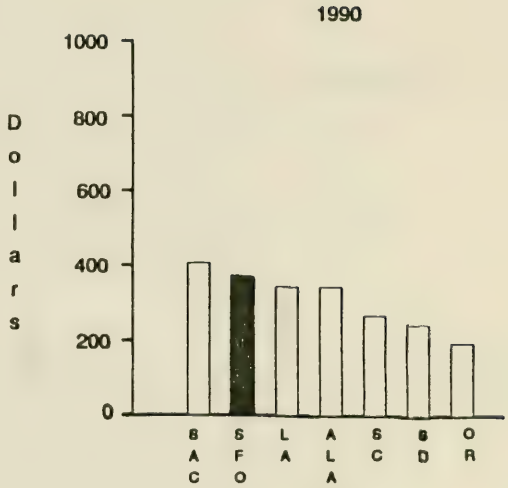
Findings

5c. San Francisco's cost of social services is also relatively high.

Social Services Expense Per Capita



U. S. Sample

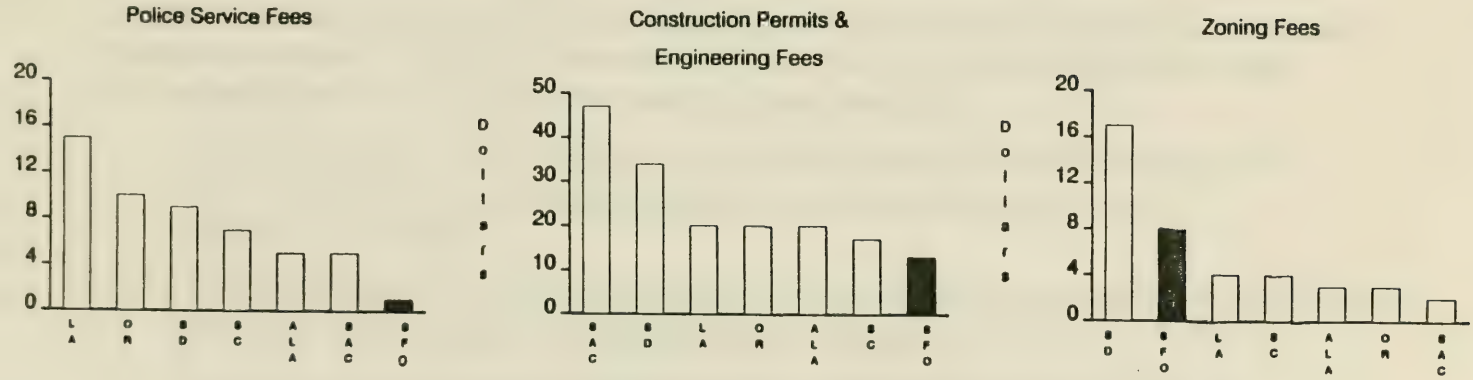


California Sample

Findings

6. Peer data indicate we generally raise less in user fees and charges than other cities/counties. This is consistent with the slower historical growth of these fees and charges. Some examples:

Revenue Per Capita
1990 California Sample



8. Financial Information Findings

SF lacks systems for measuring workload, service costs, and productivity. Accounting reports and controls are good, but management reporting of departmental revenues, expenses, staffing and workload should be improved. Top management of private sector companies use such management reports monthly to manage and control their activities.

9. Automation and Information System Findings

Due to budget limits, investments to automate functions and improve management information have been deferred or cancelled. Investment in information systems could reduce costs, and increase revenues, paying for themselves. Some examples:

- Social Service information systems could reduce costs and fraudulent claims, and improve revenues by qualifying more general assistance cases for federal government payments.
- Tax assessment and collection information systems could improve collections and coordinate information flow between the assessor and tax collector.
- Hospital information systems could help qualify more patients for Medi-Cal, and assist in negotiating a more cost effective agreement with UCSF.
- Coordination of information systems and data flows among San Francisco departments using similar data is weak.

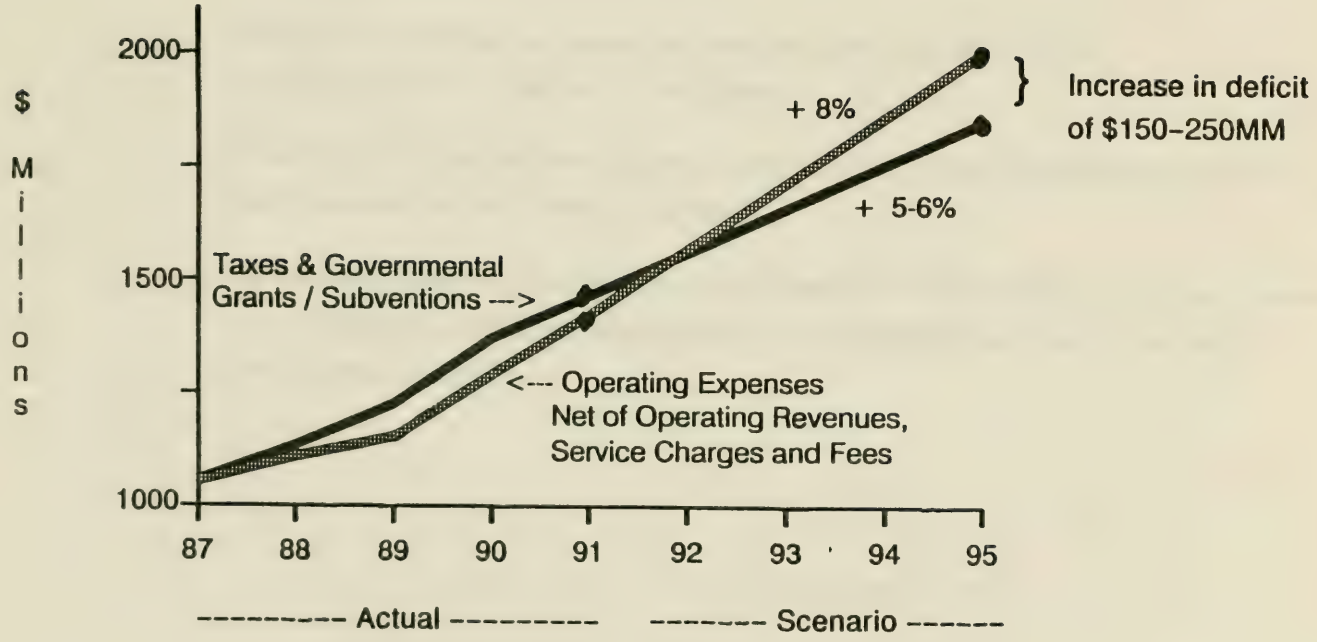
Findings

10. Service Delivery Choices

Teams found relatively small savings from eliminating out-and-out inefficiencies or waste. However, high service costs have resulted from San Francisco's choices to deliver a richer service mix or to deliver services in a certain way which may be inefficient. Some examples:

- the number of police and fire stations versus peers.
- the number of mental health service delivery points and programs, and hospital outpatient clinics.
- the number of MUNI routes with low usage/ high frequency and large operating deficits.
- limits on department head's freedom to contract for the lowest cost services possible.

City and County of San Francisco
Structural Deficit Outlook
All Funds



Policy Options

- Each team will identify specific policy options.
- We have quantified the potential financial benefit of each option, using information provided by the teams.
- The charts on the following pages summarize the broad categories of options and financial benefit potential by team.
- At the conclusion of all presentations, we will summarize individual policy options and quantify benefits in a similar (but more detailed) matrix listing individual recommendations.

Policy Options

Team	Reduce Waste	Improve Efficiency	Raise Revenues	Reduce Service
Health/Hospitals		●	●	●
Social Services		O	O	
Public Works	◒	O	O	O
Parks/Rec		O	◒	
Transportation		O	●	◒
Protection	◒	O	O	●
Administration		◒		
Human Resources		●		
Financial Mgmt		◒		

O = $0 to $5MM

◒ = $5MM to $10MM

● = $10MM and above

March 4, 1992 Estimates: Not for Release to the Public

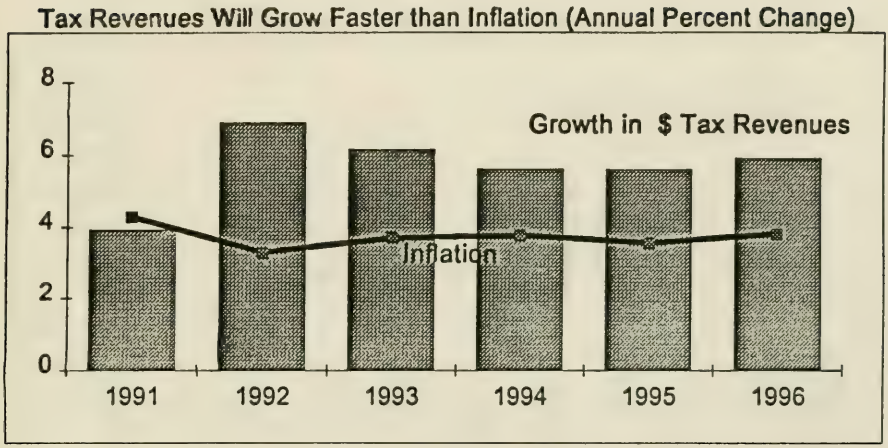
Mayor's Fiscal Advisory Committee

Tax Revenue

Team

Summary of Results

Overview



Despite the lack of economic growth, tax revenues will increase somewhat faster than the rate of inflation in every year, fiscal 1992 through 1996. The subcommittee forecasts tax revenues to increase an average of 6.2% per year, with a real (after inflation) revenue increase of 2.5% per year.

Less encouraging, the projected increase is well below the 7.2% increase experienced in the prior (86-91) five years. In addition, growth in tax revenues should ideally be generated by the economic growth and improved vitality of the City. In our current outlook, tax revenue growth is consistently above economic growth. This will create a tighter squeeze on existing businesses and property owners. Relative to other cities, San Francisco's business climate is very weak and is expected to deteriorate.

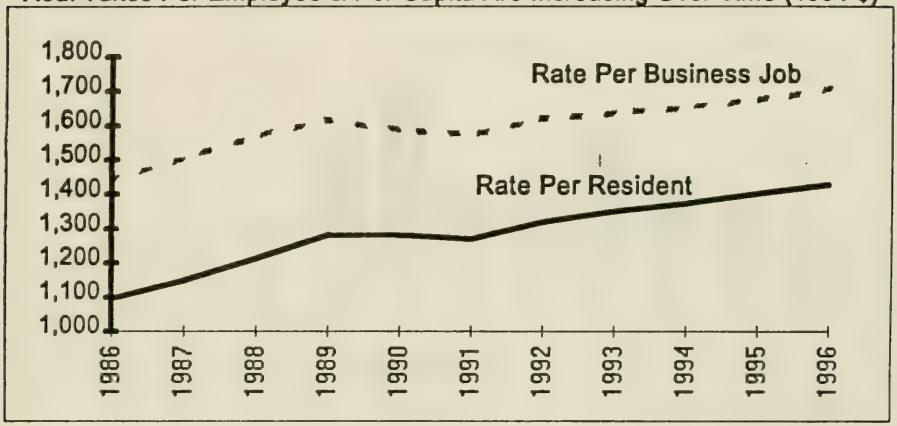
City Wage Income, Tax Revenues (Mil. $) and Consumer Price Index (CPI) Forecasts

	1991	1992	1993	1994	1995	1996
City Tax Revenues	$923.5	987.2	1,047.9	1,106.6	1,168.5	1,237.5
% change	3.9	6.9	6.2	5.6	5.6	5.9
Total Wages & Salaries	$20,619	21,587	22,603	23,666	24,917	26,320
% change	4.2	4.7	4.7	4.7	5.3	5.6
Consumer Price Index	136.3	140.8	146.0	151.5	156.9	162.9
% change	4.3	3.3	3.7	3.8	3.6	3.8

Income and Taxes in millions; CPI base year 1982-84 = 100.
Taxes are MFAC forecast; Income and CPI are Data Resources, Inc. forecast.

The City's Tax Rates

Real Taxes Per Employee & Per Capita Are Increasing Over Time (1991 $)



Over the 5 year forecast period, City tax revenues increase at a fairly steady rate when compared to employment or population in San Francisco.

Real (above inflation) tax revenues per business job increase at an annual average of 1.6% over the period. The nominal increase (not corrected for inflation) is 5.2% per year.

Real tax revenues per City resident increase at a larger 2.4% annual average over the period. The nominal increase is 6.0% per year.

On the *negative* side, the higher tax rates will hurt the competitiveness of the City's firms relative to those outside. The 90's promise lower economic growth and very tight business profits. Higher tax rates could seriously affect the City's ability to attract new firms or keep its current jobs.

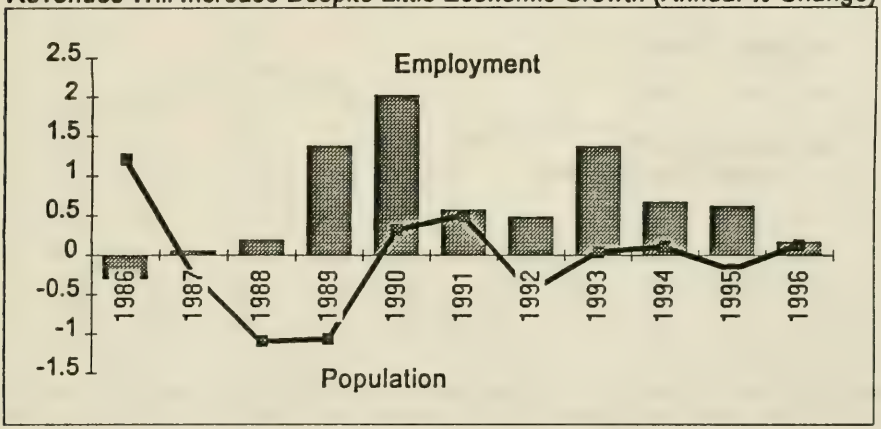
San Francisco City Real Revenues Forecasts (1991 $)

	1991	1992	1993	1994	1995	1996
Per Business Job	$1,573	1,620	1,636	1,654	1,676	1,706
% change	-0.9	3.0	1.0	1.1	1.3	1.8
Per City Resident	$1,269	1,319	1,350	1,373	1,402	1,428
% change	-0.8	3.9	2.3	1.7	2.1	1.9

Data in 1991 dollars per employed worker and per resident population; MFAC forecast.

The City's Economic Outlook

Revenues Will Increase Despite Little Economic Growth (Annual % Change)



As a "mature" city with little undeveloped land, San Francisco should not expect to grow quickly. There are some indications, however, that the City's economy has for some time been operating well under its potential.

The number of jobs in the City is expected to grow at an average annual rate of only 0.7% over the next 5 years. This compares with an average growth of 1.7% nationally and 2.2% in California. (DRI expects employment in *every* state to grow faster than the City's 0.7%).

The population of the City is expected to decline slightly from current levels. This compares with a national increase of 0.8% per year and a California increase of 1.2 to 1.8% per year.

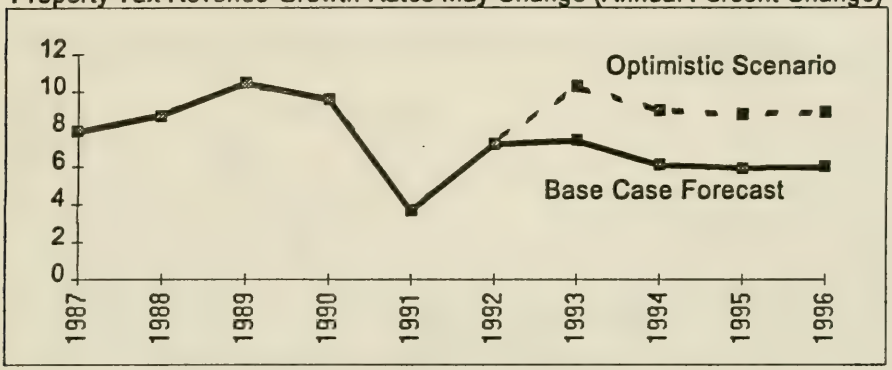
San Francisco City Employment and Population Forecasts (Thousands)

	1991	1992	1993	1994	1995	1996
Employment	587.2	590.0	598.1	602.1	605.8	606.8
% change	0.6	0.5	1.4	0.7	0.6	0.2
Population	727.6	724.3	724.6	725.3	724.0	725.0
% change	0.5	-0.5	0.0	0.1	-0.2	0.1

Employment and Population in thousands; Data Resources, Inc. forecast.

Property Tax Revenues

Property Tax Revenue Growth Rates May Change (Annual Percent Change)



The rate of increase in property tax revenues has plummeted over the past two years. This is due to the weakness in the commercial and residential real estate markets.

Most experts feel that the commercial real estate market is fundamentally weak and will remain so for some time. They argue that this segment of the economy was over-built because of tax incentives during the Reagan Administration. They do not expect a recovery within the next five years. The growth in the City's property tax revenues will thus be lower than during the 1980's. *Only by encouraging development, while the market is weak, can the city improve revenue growth (the optimistic revenue case) .*

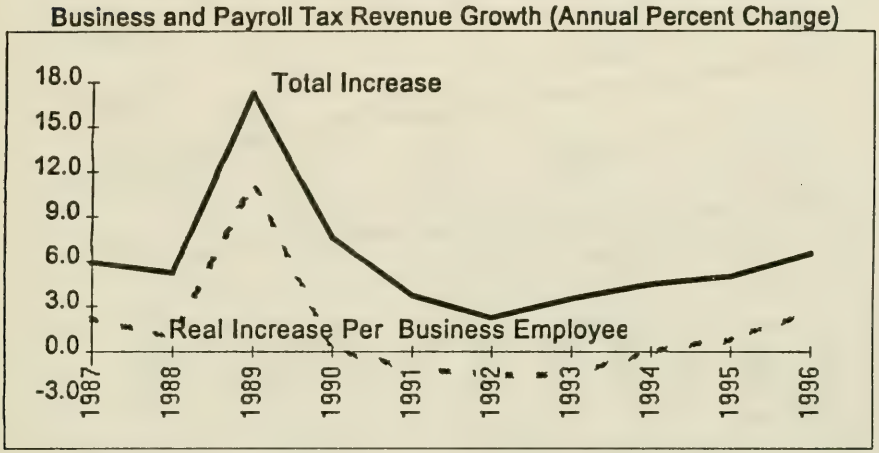
Most experts say that the residential real estate market is only temporarily weak. Current problems are the result of the recession and tighter mortgage loan policies by most banks. Future home prices -- and property tax revenues -- will, however, be much lower than expected a few years ago. *City tax revenues will increase only with new development and by improving the safety or desirability of some areas.*

San Francisco City Property Tax Revenue Forecast (Thousands $)

	1991	1992	1993	1994	1995	1996
Current $						
Base Case	$462,087	495,195	531,651	563,848	597,104	632,566
% change	3.6	7.2	7.4	6.1	5.9	5.9
Optimistic Scenario			546,017	594,980	647,177	704,517
% change			10.3	9.0	8.8	8.9
Real (1991) $						
Base Case	$462,087	479,368	496,329	507,277	518,708	529,274
% change	-0.6	3.7	3.5	2.2	2.3	2.0
Optimistic Scenario			509,741	535,286	562,207	589,476
% change			6.3	7.8	10.8	13.6

Data are in thousands and include Property and Property Transfer Taxes; MFAC forecast.

Business and Payroll Tax Revenues



These business taxes have become the City's second largest source of discretionary revenues, after property taxes. Except when the rate is changed (as in 1989-90), revenue increases will parallel the rate of inflation and employment growth.

Because many other local governments do not tax businesses directly, this is the City's most conspicuous and controversial source of revenue. Even minor changes in the statutory tax rate will have a major affect on the business climate and thus economic growth.

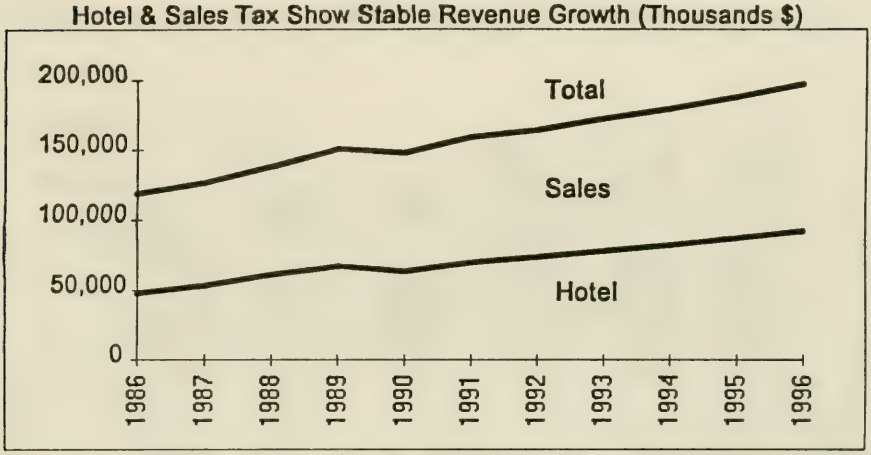
This controversy also makes the business tax a potential economic development tool. Any simplification or rate reduction would show the City's "commitment to a better business environment" -- even if the total amount of tax collected was not substantially reduced.

San Francisco City Business & Payroll Tax Revenue Growth Forecast (Annual % Ch.)

	1987	1988	1989 •	1990	1991	1992	1993	1994	1995	1996
Total % Change	5.9	5.2	17.2	7.6	3.7	2.2	3.5	4.5	5.0	6.5
% per worker	5.8	5.0	15.8	5.6	3.2	1.7	2.1	3.8	4.4	6.4
% real per worker	2.2	0.9	11.1	0.2	-1.1	-1.6	-1.6	0.0	0.8	2.5

• Reflects the increase in the City's tax rate.
Revenue change is MFAC forecast; Employment and Inflation change is DRI forecast.

Hotel and Sales Tax Revenues



Both of these revenues sources have tended to show a smooth pattern of growth over time. Taken together the two taxes are as large or larger than the total business tax collections. There are few policy options available, however, that might improve the revenue growth for either hotel or sales taxes.

Over the past 5 years, the weak U.S. dollar has supported an increase in tourism nationwide. San Francisco's hotel tax collections have benefited, averaging a healthy growth rate of 7.7% per year. For the coming 5 years, MFAC forecasts a more moderate but still healthy 6.4% annual growth rate. This lower forecast rate is due to a slightly lower inflation rate. *Special projects, such as the expansion of the Moscone Center, will help but only marginally improve the totals.*

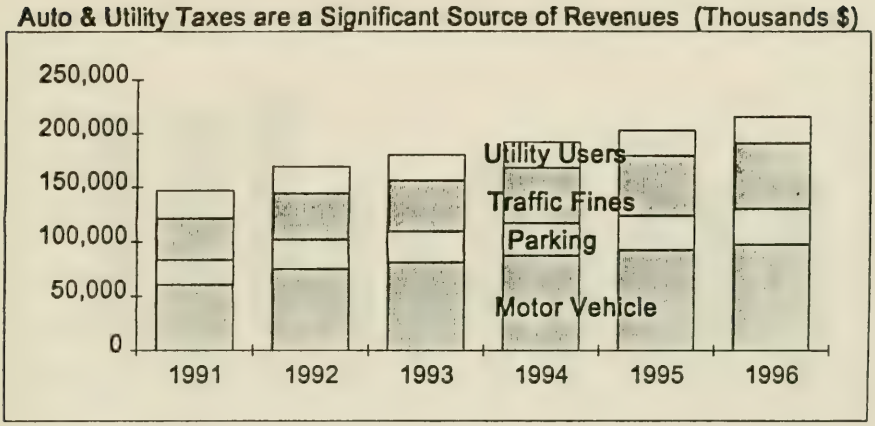
General Fund sales tax collections are dependent on a large number of economic factors including the number and type of businesses, tourism, and the relationship of the City to the rest of the Bay Area. Over the past 5 years the growth rate was 4.8%. Because of the current recession and the slightly lower expected inflation, sales tax revenue growth is expected to average only 3.6% over the next 5 years.

San Francisco City Hotel and Sales Tax Revenue Forecast (Thousands $)

	1991	1992	1993	1994	1995	1996
Total Hotel & Sales	$159,042	163,930	171,975	179,235	187,575	196,720
% change	7.5	3.1	4.9	4.2	4.7	4.9
Hotel Tax	$69,557	73,670	77,675	82,035	86,875	91,960
% change	9.7	5.9	5.4	5.6	5.9	5.9
Sales Tax	$89,485	90,260	94,300	97,200	100,700	104,760
% change	5.9	0.9	4.5	3.1	3.6	4.0

Data in thousands of current dollars ; MFAC forecast.

Auto and Utility Tax Revenues



These individually smaller revenue sources now produce over 15% of the total City tax revenues. Several policy options are available that could either yield more revenues or support other economic goals.

The parking tax revenues have grown slightly higher than average, 7.7% annually over the past 5 years. *Parking rates and space availability should be given careful study. Better management would increases revenues as well as potentially bolster the commuter or tourism segments of the City's economy.*

The utility tax revenues have declined over the past 5 years and are expected to show no growth in the future This is due to the decline in Pac Bell rates. *The statutory law -- which currently excludes residential and self-providers -- should be reviewed.*

The collection of ***traffic fines*** has also increased much faster than other City revenues, 11.1% annually over the past 5 years. *If linked to better traffic control, this might speed the commute and also help to generate higher business revenues.*

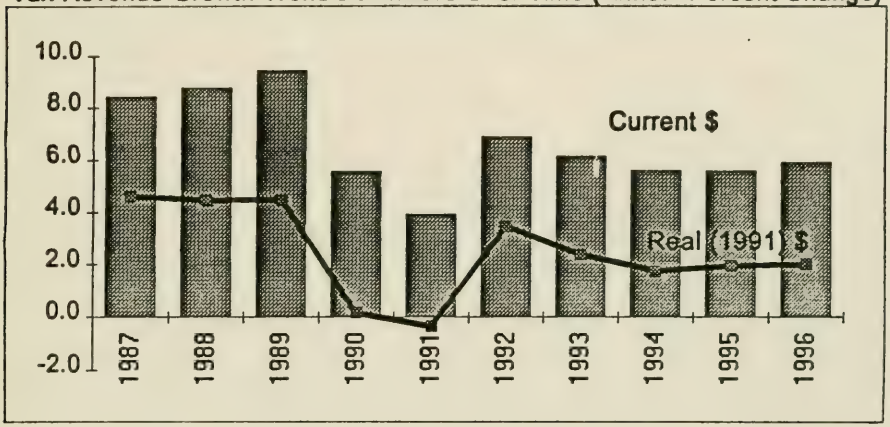
San Francisco City Automobile and Utility Tax Revenue Forecast (Thousands $)

	1991	1992	1993	1994	1995	1996
Motor Vehicle Tax	$60,201	75,000	81,000	87,000	92,000	97,000
% change	-1.3	24.6	8.0	7.4	5.7	5.4
Parking Tax	$22,644	26,527	28,061	29,683	31,277	33,047
% change	-0.7	17.1	5.8	5.8	5.4	5.7
Traffic Fines	$38,423	42,900	47,040	51,470	56,210	61,280
% change	5.1	11.7	9.7	9.4	9.2	9.0
Utility Users Tax	$25,846	24,911	23,964	23,807	24,133	24,945
% change	4.2	-3.6	-3.8	-0.7	1.4	3.4

Data in thousands of current dollars ; MFAC forecast.

Long-Term Revenue Growth Summary

Tax Revenue Growth Trend Downward Over Time (Annual Percent Change)



We forecast that growth in tax revenues will gradually slow over the next 5 years. Revenue growth rates also remain well below that in the late 1980's. This is due to the City's weak fiscal base.

New residential development is the best way to improve the fiscal outlook without increasing tax rates. Most studies suggest that the City would add 2 new jobs for every 3 new residents.

Methods to improve parking and traffic flow could increase both direct revenues and (indirectly) commuter and tourism revenues. Unless improved, however, the traffic gridlock will prevent outside commuters from adding much to the City's employment and fiscal base.

The City should clearly identify its preferred business growth and set up systems to accommodate that growth. Major structural changes are evolving in the 1990's economy. Communities with more flexible or quicker planning processes will have the advantage in attracting the premium new jobs.

San Francisco City Tax Revenue Change from Preceding Year (Percent)

	1988	1989	1990	1991	1992	1993	1994	1995	1996
Current $	0.3	0.7	-3.9	-1.6	3.0	-0.7	-0.6	0.0	0.3
1991 $	-0.2	0.0	-4.4	-0.5	3.8	-1.1	-0.6	0.2	0.1

Data computed as the percent difference between two years' revenue growth; MFAC forecast.

JOHN GRUENSTEIN BPA ECONOMICS
510-284-9415

Confidential
Preliminary

PROPERTY TRANSFER TAX FORECAST

MFAC

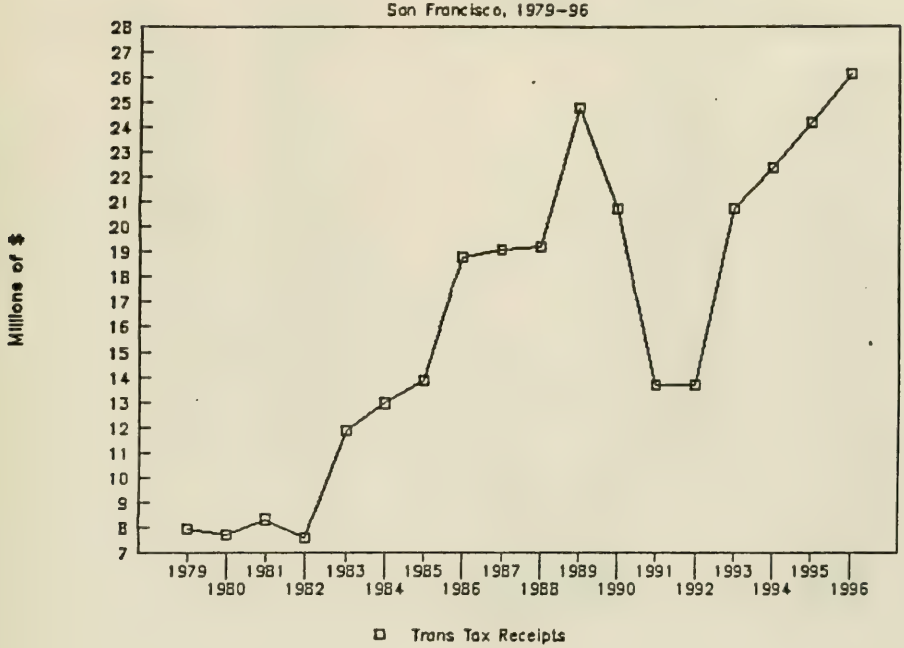
John Gruenstein
BPA Economics
12/12/91

Summary

Property transfer tax receipts are forecast to hold even in 1992, and then to recover back to their pre-recession level in 1993. While the increase from 1992 to 1993 is very large, this pattern is consistent with recovery from the 1981-82 recession. From 1993 to 1996, receipts are forecast to grow at their long term rate, 8 percent, the average growth rate of the 1982-91 period.

Property Transfer Tax Receipts

San Francisco, 1979–96



Fiscal Year	Prop Trans Tax Rec	Property Transfer Tax Receipts	% change
1979	$7,920	0.007920	
1980	$7,714	0.007714	-2.6%
1981	$8,319	0.008319	7.8%
1982	$7,580	0.007580	-8.9%
1983	$11,851	0.011851	56.3%
1984	$12,957	0.012957	9.3%
1985	$13,874	0.013874	7.1%
1986	$18,785	0.018785	35.4%
1987	$19,056	0.019056	1.4%
1988	$19,186	0.019186	0.7%
1989	$24,788	0.024788	29.2%
1990	$20,717	0.020717	-16.4%
1991	$13,695	0.013695	-33.9%
1992	$13,695	0.013695	0.0%
1993	$20,717	0.020717	51.3%
1994	$22,380	0.022380	8.0%
1995	$24,177	0.024177	8.0%
1996	$26,117	0.026117	8.0%
		Avg 82-91	8.0%
		Avg 87-91	-3.8%
		Avg 87-90	3.7%
		Avg 92-96	15.1%
		Avg 82-86	19.9%
		Avg 82-85	16.0%

John Gruenstein BPA Economics Confidential #6
510- 284-9415 Preliminary

PROPERTY TAX FORECAST

MFAC

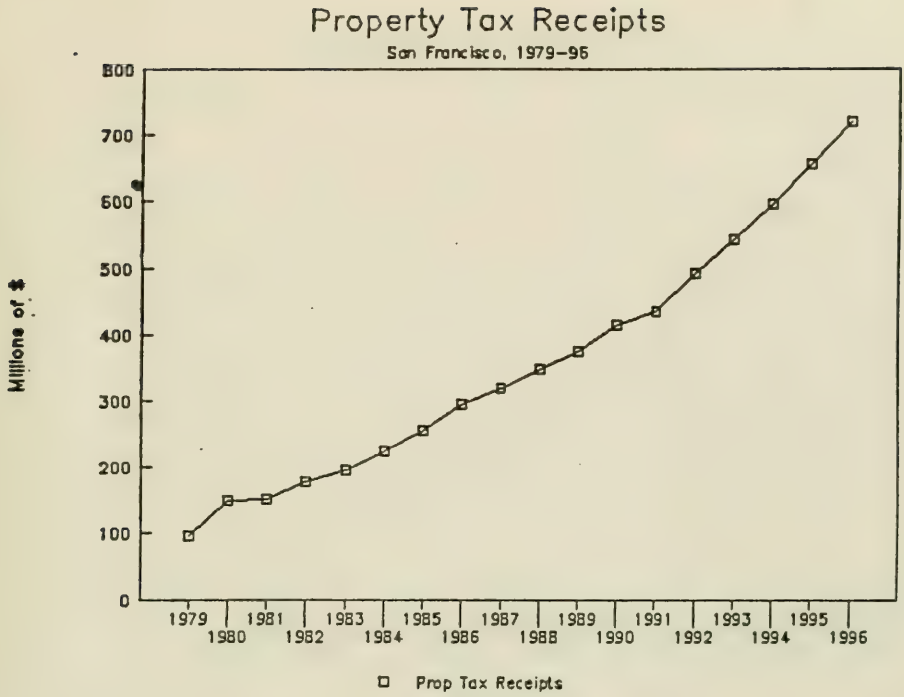
John Gruenstein
BPA Economics
12/12/91

Summary

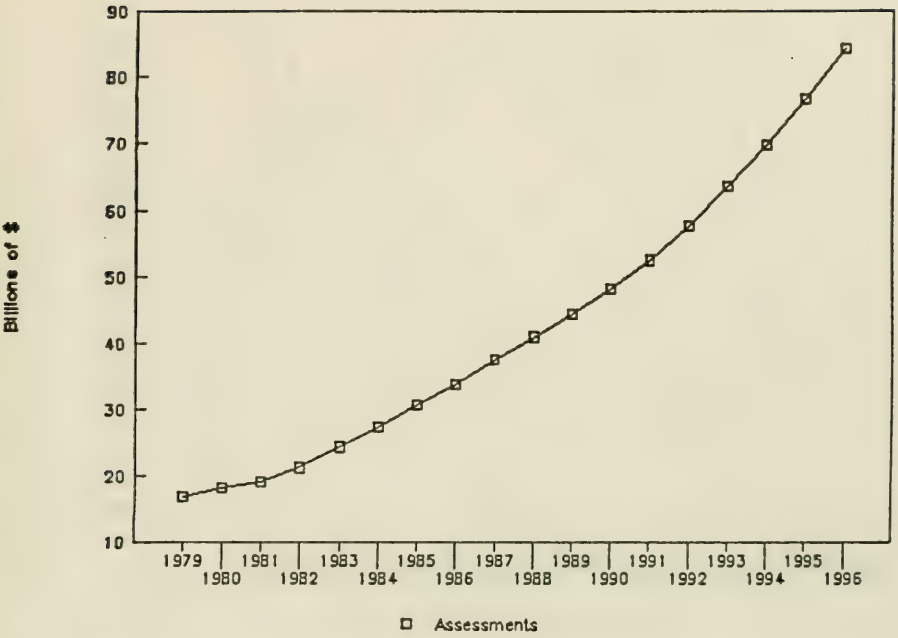
Property tax receipts will grow 65.3 percent between 1991 and 1996, an annual average rate of 10.6 percent. Growth in receipts is composed of growth in assessments at approximately the same rate, and an average effective tax rate of 0.8537 percent, the average effective rate during the period from 1986 to 1991. This effective rate is slightly higher than the average rate of 0.8307 percent in 1991, but is lower than the statutory rate of 0.8751565 percent.

Assumptions

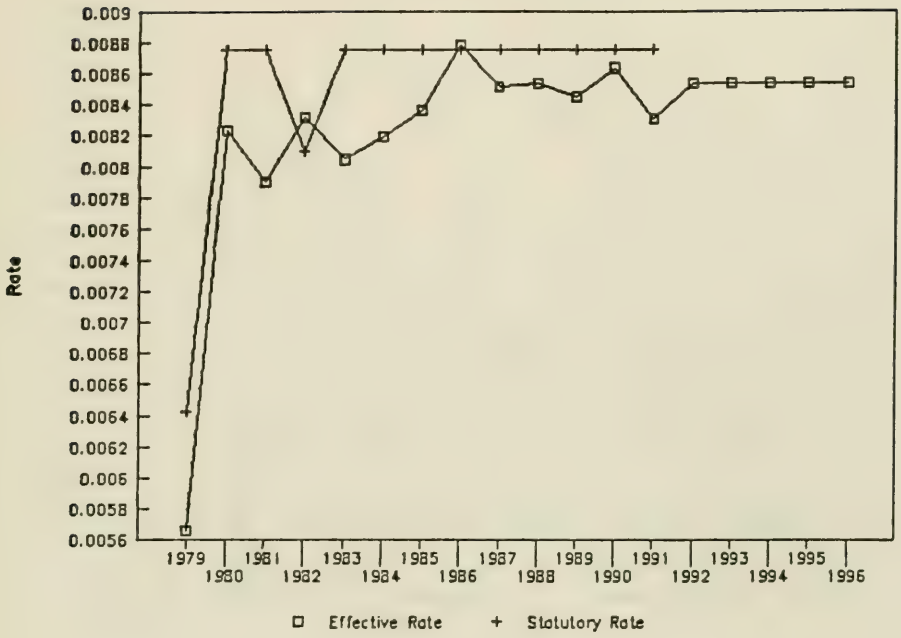
1. The percentage growth rate of current assessments is directly related to the percentage change in the San Francisco CPI, all urban consumers, lagged 3 years and of the percentage change in U.S. GNP with a 1 year lead. The CPI change of three years ago affects assessments because of the lag in reassessment, due to the need for a resale under Proposition 13. Real estate cycles lead the overall economy, and so the property tax assessments lead GNP. Because we have a forecast of GNP, we can use this to forecast assessments one year back. Since the equation already includes a price variable, CPI, the deflated GNP is used. See regression 4.
2. The effective tax rate is assumed to be the average effective tax rate during 1986 to 1991. This rate was higher than the rate during the preceding five years.

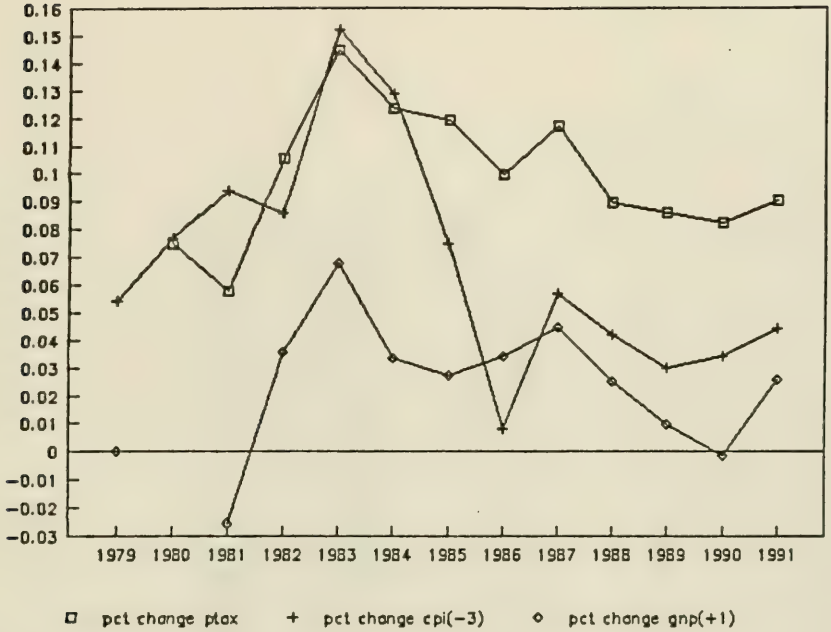

Property Tax Receipts
San Francisco, 1979-96
Millions of $
800
700
600
500
400
300
200
100
0
1979
1980
1981
1982
1983
1984
1985
1986
1987
1988
1989
1990
1991
1992
1993
1994
1995
1996
Prop Tax Receipts

Property Tax Assessments



Property Tax Rates




0.16
0.15
0.14
0.13
0.12
0.11
0.1
0.09
0.08
0.07
0.06
0.05
0.04
0.03
0.02
0.01
0
−0.01
−0.02
−0.03
1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991
pct change ptax
pct change cpi(−3)
pct change gnp(+1)

Fiscal Year	Prop tax Receipts	Pct Change
1979	$95,597	
1980	$149,401	56.3%
1981	$151,812	1.6%
1982	$176,561	16.3%
1983	$195,695	10.8%
1984	$223,844	14.4%
1985	$255,833	14.3%
1986	$295,459	15.5%
1987	$319,872	8.3%
1988	$349,233	9.2%
1989	$375,583	7.5%
1990	$415,454	10.6%
1991	$435,751	4.9%
1992	$493,088	13.2%
1993	$542,954	10.1%
1994	$597,118	10.0%
1995	$655,695	9.8%
1996	$720,288	9.9%

February 15, 1992

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MFAC Revenue Team
Business Tax Revenue

The Business Tax accounts for approx. 17% of total San Francisco tax revenues and is composed of four individual sources:

1) Roofer Vehicule Tag Fee
2) Registration Fee
3) Business Tax (Gross Receipts Tax) *
4) Payroll Expense Tax *

* Note: A business must pay the higher of the gross receipts tax or the payroll tax, but not both.

The forecast for the business tax is shown in schedule 1, rows 17-21 and columns B-H, and again in schedule 2. Growth rate charts for the gross receipts tax (business tax) and the payroll tax are on schedules 1a and 1b, respectively.

Summary

Payroll Tax

The Payroll Tax is currently 1.50% of the part of a business's payroll attributable to San Francisco. The tax is collected yearly by early March, based on payroll for the preceding calendar year. The rate remained flat at 1.10% from 1975 through 1980, then jumped to 1.50%, and has since fluctuated between 1.50% and 1.60%, declining from 1.60% in 1990 to 1.50% today. There is no evidence to suggest that the payroll tax will be changed during the forecast period.

The rate-base estimation method was employed in the forecast of the payroll tax. This method uses a calculated effective tax rate times a statutory base to forecast revenues. The base used is total annual compensation for employees in the City/County of San Francisco. It can be shown that total annual compensation is a very strong determinant of the level of tax collections. For an in-depth discussion of the forecast equation, please refer to attachment 8.

Growth in the payroll tax closely follows growth in total annual compensation. From 1993-1996, we estimate payroll tax revenues to grow at 4.3-5.6% per year, while total annual compensation is expected to grow at 3.8-5.0%. The current recession leads us to believe that growth in payroll tax revenues will be only 1% in 1992.

Business Tax

The Business Tax (Gross Receipts Tax) is based on the total amount charged or received for all sales of goods, services performed, etc. including all receipts, cash credits and property of any kind or nature, apportioned according to the percentage of such services performed in San Francisco. The tax is collected yearly by early March, based on gross receipts for the preceding calendar year. For purposes of this tax, businesses are grouped into 15 different classes, and the business tax rate differs for each class. We employed a single average rate of 0.31% to simplify the analysis.

The rate-base estimation method described above was employed in the forecast of the business tax. The base used is total annual output for the San Francisco metropolitan area, which includes Marin and San Mateo. It can be shown that total annual output is a good determinant of the level of tax collections.

Historically, growth in this tax has been 6-9% greater than the growth in output itself. To be conservative, the business tax grows only 3-6% faster than the underlying growth in output in our forecast. The relationship can be seen in the data fit chart in schedule 1a. The effect of the 1989 earthquake was taken into account with a "dummy" variable in the year 1990 and a small "add factor" in the first forecast year.

Registration Fee

The Registration Fee is a flat charge of $150 per business. It was first collected in fiscal year 1988-89. The lack of historical data makes it difficult to forecast revenues. We were able to determine however, that the number of businesses in San Francisco has changed little over the past 10 years. Therefore, we have held the revenues from collection of the registration fee constant over the forecast period.

Following is a more detailled discussion of the various parts of the business tax and the underlying data:

1) Roofer Vehicule Tag Fee

The Roofer Vehicule Tag Fee is immaterial (Ca. $12,000 in 1991) and is thus not included in the forecast (see attachment 1).

2) Registration Fee

The Registration Fee is a flat charge of $150 per business, and is allocated pro rata if a business registers in any month other than the first month of the fiscal year. This tax was first collected in fiscal year 1988-89. The lack of an adaquate data series makes it difficult to forecast revenues from this fee. However, we were able to obtain some data from John Ganaka of the Tax Collector's Office, Business Tax Division which indicates little change in the number of businesses doing business in San Francisco over time (see attachment 2).

In order to determine whether there is any statistically relevant correlation between the number of businesses and payroll tax receipts (which is the basis for the regresssion analysis for the payroll tax as described below), we ran a regression analysis using the number of businesses (attachment 2) as the independent variable and payroll tax receipts as the dependent variable. The result is an r-squared value of 0.21 or 21%. We conclude that there is very little correlation. Thus, we have assumed that the revenues from the Registration Fee remain flat over the forecast period, assuming that the fee of $150 per business is not changed. See attachment 4 for a schedule of Registration Fee collections since 1988-89.

3) Business Tax (Gross Receipts Tax)

The Business Tax (Gross Receipts Tax) is based on the total amount charged or received for all sales of goods, services performed, etc. including all receipts, cash credits and property of any kind or nature, apportioned according to the percentage of such services performed in San Francisco (see attachment 3, pg. 2).

For purposes of this tax, businesses are grouped into 15 different classes, and the business tax rate differs for each class. We received from Mr. Ganaka a schedule of tax collections (attachment 4) which details collections since 1975-76 and we obtained a computer printout (see attachment 5, pg. 1-3) of the collections per class per year for the years 1988 through 1990.

The lack of collection data per tax class for the years before 1988 means that we did not have a data series for each class which could have been used to forecast collections for each tax class separately. Therefore, we averaged the effective rates in the years 1988, 1989 and 1990 and employed the resulting rate for all years of the data series. (One Rate Method)

One rate method

Using total gross receipts and total tax due (attachment 5), the ratio of tax due to gross receipts was calculated for the years 1988, 1989 and 1990. The average for the 3 years is a business tax rate of 0.31%. This rate was applied for all years of the data series (see schedule 1, column D).

Business tax forecast

The business tax forecast is based on a regression analysis using:

a) business tax receipts from Mr. Ganaka of the Tax Collector's Office, Business Tax Division (attachment 4),

b) the one rate method (see above),

c) output data provided by Data Resources Inc. (attachments 6 and 7).

Column C, rows 1-16 of schedule 1 shows the collections based on attachment 4. Column D shows the rates based on the one rate method. Column I is DRI output data from attachment 6, and column J is DRI inflation data based on attachment 7. Column K is calculated as I x J. Column L is the expected tax collections based on the underlying output data and is calculated as column K x D. Finally, columns L and C are used to run the regression, using the methodology described in attachment 8, provided by Ken Ballard, Director of Economic Forecasting at PG&E. This methodology is based on work described in more detail in the documentation for the utility and sales taxes.

The regression coefficients are documented in schedule 2. The resulting data fit is graphed in schedule 1a. The forecast for the gross receipts tax for the years 1992-1996 is shown in column C, rows 17-21 of schedule 1 and in summary in the lower section of schedule 2.

4) Payroll Tax

The Payroll Tax is 1.5% of the payroll expense of a business attributable to San Francisco in a given year.

The payroll tax forecast is based on a regression analysis using:

a) payroll tax receipts from Mr. Ganaka of the Tax Collector's Office, Business Tax Division (attachment 4),

b) the payroll tax percentage rate per year for all years in the data series (attachment 4),

c) payroll employment data provided by Walter Hoadley in conjunction with the Bay Area Economic Advisors (attachment 9) and annual compensation data provided by Data Resources Inc. (attachment 10).

Column E, rows 1-16 of schedule 1 shows the collections based on attachment 4. Column F, rows 1-16 shows the rates based on attachment 4. Column M is payroll employment data from attachment 9. Column N is DRI annual compensation data from attachment 10. Total annual compensation (Column O) is calculated as M x N. Column L is the expected tax collections based on the underlying payroll employment and annual compensation data and is calculated as column O x F. Finally, columns P and E are used to run the regression, using the methodology described in attachment 8. This methodology is based on work described in more detail in the documentation for the utility and sales taxes.

The regression coefficients are documented in schedule 2. The resulting data fit is graphed in schedule 1b. The forecast for the payroll tax for the years 1992-1996 is shown in column E, rows 17-21 of schedule 1 and in summary in the lower section of schedule 2.

Estimation and Forecast of the Payroll and Business Tax

Estimation

The Payroll Tax equation uses as independent variables the San Francisco City/County annual employment and annual compensation per employee to capture the tax base and multiplies the product of the two with the tax rate. The resulting independent variable is a proxy for expected payroll receipts. The estimated equation is

$$Y = 3,695,814.5 + 0.3972\ X.$$

As the attached graph shows, the estimation produces a very good fit. Moreover, the annualized growth rates for the dependent and independent variables are almost identical.

The Business Tax equation uses the local output as a proxy for the tax base. The estimated equation is

$$Y = -12,625,551.2 + 0.241\ X - 2,527,092.9\ DUMMY.$$

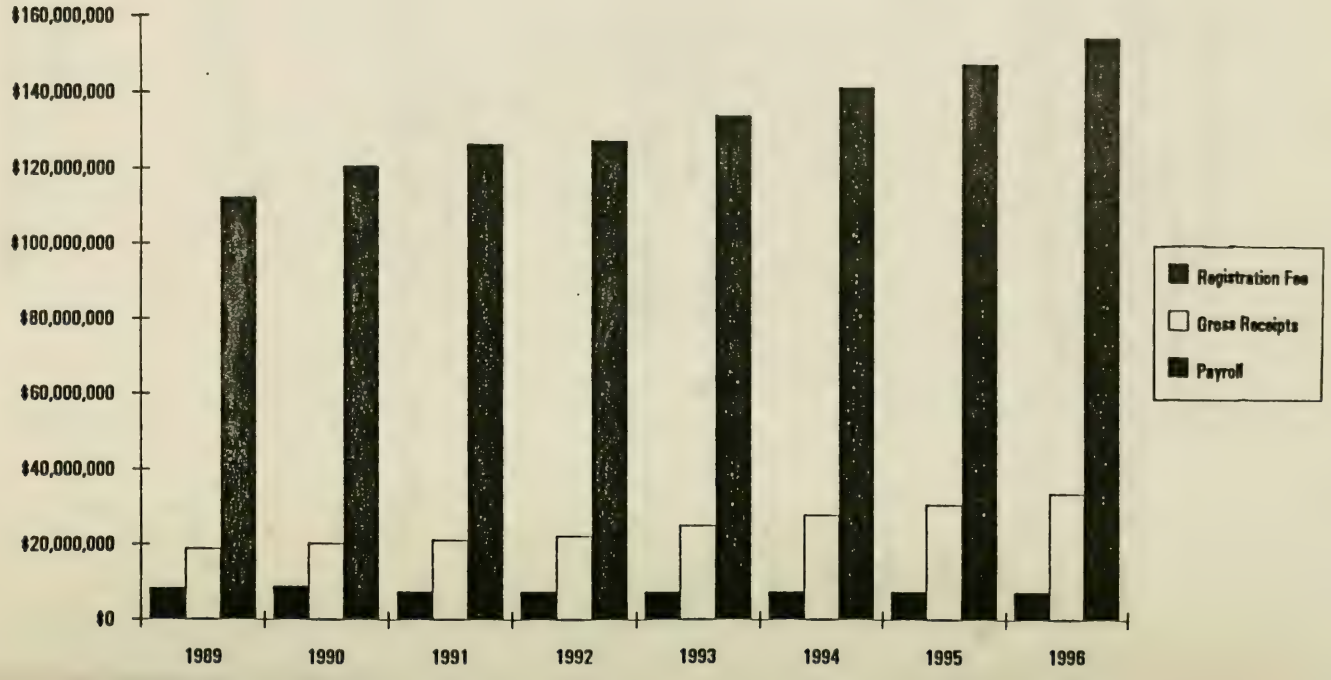
The dummy has a value of 1 only for the years 1989 and 1990 and captures the effect of the 89 earthquake on the local economy. The coefficient of the dummy is significant. This equation represents a satisfactory fit. The growth rate of output and therefore of the expected receipts is, on average, 9% lower than the growth rate of actual tax receipts.

Forecast

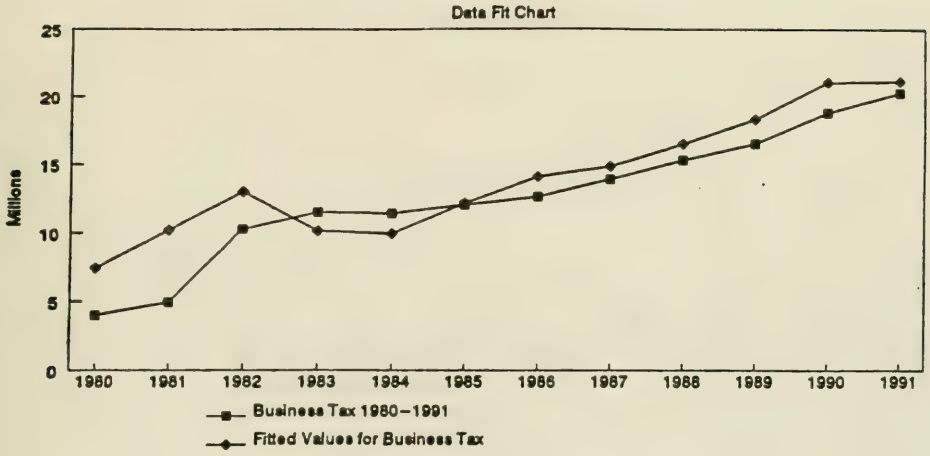
The Forecasts are produced by using the above equations and the last period residual as an addfactor.

MFAC Revenue Team

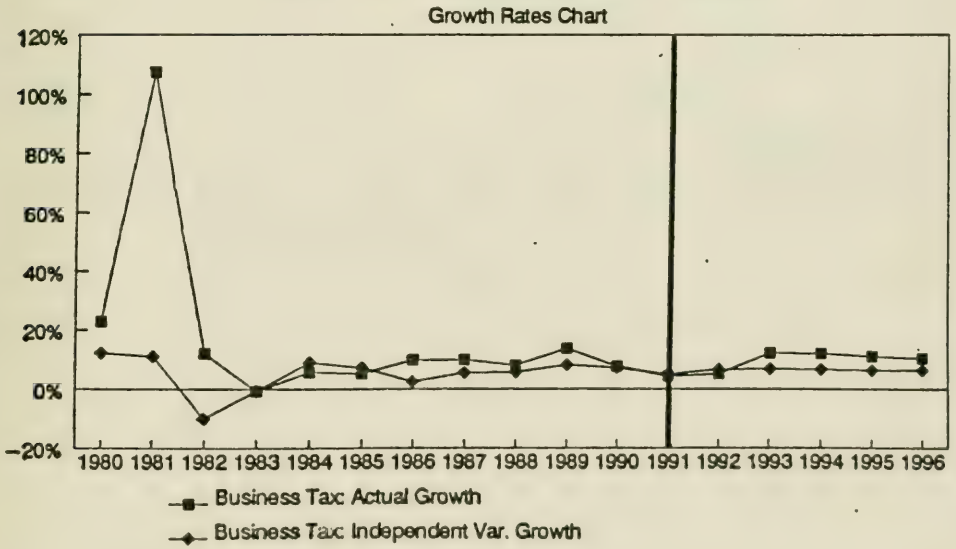
Business Tax Forecast



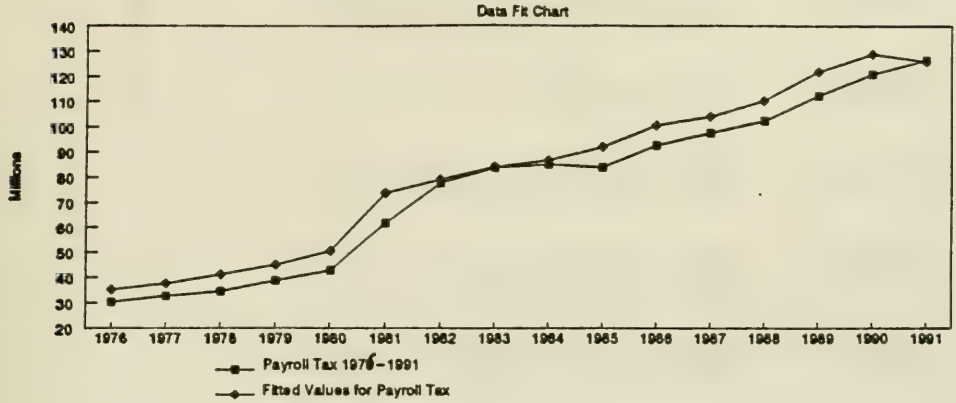
MFAC Revenue Team



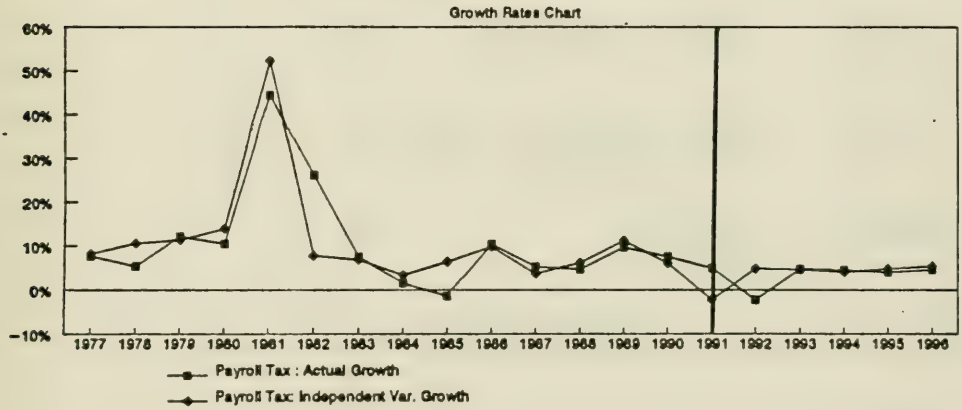
MFAC Revenue Team



MFAC Revenue Team



MFAC Revenue Team



Schedule 1

MFAC Revenue Team – Business Tax

February 16, 1992

A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
	Fiscal Year End	Gross Receipts Tax Business Tax ($)	Business Tax Calculated Weighted Rate (%)	Payroll Tax ($)	Payroll Rate (%)	Registration Fee ($)	Total Business Tax ($)	Real Output ($ millions)	Inflation Base (#)	Nominal Output ($ millions)	Business Expected Tax Collections ($)	Total Payroll Employment (#)	Annual Compensation per Employee ($)	Total Annual Compensation ($'000's)	Payroll Expected Tax Collections ($)
1	1976	4,328,283	0.31%	30,325,972	1.10%		34,648,255		56.9	0	0	492,978	12,952	6,385,061	70,235,562
2	1977	4,737,995	0.31%	32,656,510	1.10%		37,394,505		60.6	0	0	494,052	13,727	6,781,652	74,600,370
3	1978	3,468,762	0.31%	34,436,147	1.10%		37,902,909		65.2	0	0	522,523	15,548	8,124,188	89,366,064
4	1979	4,026,955	0.31%	38,639,686	1.10%		42,666,641	37,771	72.6	27,422	85,007,737	536,392	16,820	9,058,783	99,613,268
5	1980	4,949,785	0.31%	42,710,846	1.10%		47,660,631	37,360	82.4	30,785	95,433,518	582,845	18,328	10,315,823	184,737,347
6	1981	10,270,236	0.31%	61,660,183	1.50%		71,930,419	37,572	90.9	34,153	105,872,752	671,407	20,157	11,517,861	172,767,783
7	1982	11,509,140	0.31%	77,798,020	1.50%		89,307,160	31,837	96.5	30,723	95,241,534	658,712	22,190	12,420,008	186,300,136
8	1983	11,430,562	0.31%	83,723,687	1.50%		95,154,249	30,640	99.6	30,517	94,602,770	648,744	24,195	13,278,861	192,514,486
9	1984	12,075,069	0.31%	85,020,438	1.45%		97,095,508	31,998	103.9	33,215	102,985,503	681,247	25,303	14,201,233	205,817,878
10	1985	12,703,178	0.31%	83,891,064	1.45%		96,594,242	33,067	107.7	35,613	110,399,294	664,642	26,726	15,060,822	226,359,331
11	1986	13,948,824	0.31%	92,596,437	1.50%		106,545,261	33,284	109.7	36,512	113,186,613	663,106	28,473	16,033,317	240,499,757
12	1987	15,335,920	0.31%	97,488,089	1.50%		112,824,009	33,883	113.7	38,525	119,426,027	663,409	29,532	16,638,596	249,578,919
13	1988	16,558,914	0.31%	102,168,897	1.50%		118,727,811	34,379	118.4	40,704	126,182,912	684,535	31,367	17,707,769	263,324,310
14	1989	18,635,514	0.31%	112,115,097	1.60%	8,183,000	138,133,611	35,527	124.0	44,064	136,598,495	672,258	32,208	18,431,266	294,900,571
15	1990	20,274,862	0.31%	120,631,779	1.60%	8,784,930	149,691,571	36,126	130.7	47,217	146,371,698	683,900	33,961	19,841,506	307,543,341
16	1991	21,181,231	0.31%	126,637,022	1.55%	7,477,858	155,295,911	36,343	136.3	49,536	153,558,050	687,200	35,441	20,810,955	312,164,329
17	1992	22,384,960		127,682,342		7,477,858	157,524,960	37,518	140.8	52,828	163,759,915	680,000	37,208	21,961,840	340,248,870
18	1993	25,453,226		134,477,864		7,477,858	167,408,549	38,674	146.0	56,465	175,040,487	696,100	39,842	23,231,400	360,088,703
19	1994	28,169,440		142,102,755		7,477,858	177,748,853	39,735	151.5	60,199	186,615,930	802,100	40,314	24,273,058	376,232,421
20	1995	30,956,650		148,308,703		7,477,858	186,743,011	40,644	156.9	64,084	198,681,326	805,800	42,077	25,490,247	396,096,822
21	1996	33,857,020		155,580,404		7,477,858	196,895,082	41,661	162.9	68,192	211,394,258	808,800	44,169	26,901,749	415,427,113
22	1997														
23	1998														
24	1999														
25	2000														
26															
27		Yearly		Yearly		Yearly	Yearly	Yearly			Yearly	Yearly	Yearly	Yearly	Yearly	Yearly
28		Growth		Growth		Growth	Growth	Growth			Growth	Growth	Growth	Growth	Growth	Growth
29	1992	5.74%		0.83%		0.00%	1.45%	0.60%			4.81%	4.91%	0.57%	4.30%	4.69%	1.50%
30	1993	13.81%		5.32%		0.00%	6.27%	3.24%			6.84%	6.84%	0.46%	4.96%	5.48%	8.00%
31	1994	10.67%		5.67%		0.00%	6.16%	3.06%			6.89%	6.89%	1.37%	4.40%	5.83%	5.83%
32	1995	9.89%		4.37%		0.00%	5.06%	2.74%			6.61%	6.61%	0.87%	3.79%	4.48%	4.48%
33	1996	9.37%		4.89%		0.00%	5.44%	2.79%			6.45%	6.45%	0.61%	4.37%	5.01%	5.01%

Schedule 2

MFAC Revenue Team – Business Tax

February 15, 1992

Business (Gross Receipts) Tax with computed intercept				
Regression Output:			0.31%	
Constant		-12625551.2		
Std Err of Y Est		1395108.995		
R Squared		0.917581467	0.00074644	rate * x coefficient
No. of Observations		12		
Degrees of Freedom		10		
X Coefficient(s)	0.2407866561353	-2527092.96		
Std Err of Coef.	0.0226203625608	1736176.147		

Payroll Tax with computed intercept				
Regression Output:			1.50%	
Constant		3695814.536		
Std Err of Y Est		3062356.443		
R Squared		0.991736485	0.00595775	rate * x coefficient
No. of Observations		16		
Degrees of Freedom		14		
X Coefficient(s)	0.3971835229832			
Std Err of Coef.	0.0096897254581			

Summary of Forecast Results

	Business Tax ($)	Payroll Tax ($)	Registration Fee ($)	Total Business Tax ($)
1992	22,364,980	127,682,342	7,477,658	157,524,980
1993	25,453,226	134,477,664	7,477,658	167,408,549
1994	28,169,440	142,102,755	7,477,658	177,749,853
1995	30,956,650	148,308,703	7,477,658	186,743,011
1996	33,857,020	155,560,404	7,477,658	196,895,082

Attachment

Business and Payroll Taxes Collections.
1990-1991

Payroll Expense Tax	$126,637,222
Business Tax	21,150,744
Sub Total	$147,787,966

Add:

Registration fee	7,477,945
Roofer vehicle Tax fee	12,300
TOTAL COLLECTED	$155,278,211

From: John Canuka, Tax Collector's Office, Bus. Tax Division
San Francisco

Attachment 2

BUSINESS TAXES DIVISION
ACTIVE MAIN ACCOUNTS*
June 30, 1979 - June 30, 1991

BALANCE AS OF:	ADD NEW ACCOUNTS	DELETE INACTIVATES	BALANCE
June 30, 1979			54,048
June 30, 1980	6,552	(5,406)	55,194
June 30, 1981	5,869	(5,137)	55,926
June 30, 1982	5,641	(3,200)	58,367
June 30, 1983	5,242	(4,535)	59,074
June 30, 1984	5,480	(6,642)	57,912
June 30, 1985	4,430	(6,054)	56,288
June 30, 1986	6,145	(4,602)	57,831
June 30, 1987	6,557	(7,863)	56,525
June 30, 1988	7,794	(7,753)	56,566
June 30, 1989	11,661	(10,227)	58,000
June 30, 1990	9,317	(10,447)	56,870
June 30, 1991	8,621	(9,405)	56,086

* Includes multiple classification accounts
* Does not include sub (location) accounts

Source: Business Taxes Report 400
Tax Collector's office

(0230b)

PAYROLL EXPENSE TAX AND BUSINESS TAX ORDINANCES
As of December 1990

This brochure is intended as a brief summary of the San Francisco Payroll Expense Tax Ordinance No. 275-70 and the San Francisco Business Tax Ordinance No. 245-68 (Article 12 A&B, Part III, of the Municipal Code) as interpreted by the Tax Collector upon the advice of legal counsel. For a more precise understanding of these ordinances reference should be made to the ordinances themselves.

—TAX COLLECTOR'S OFFICE

IMPORTANT NOTICES

1. Annual Business Registration — Persons doing business in the City and County of San Francisco are required to register and are subject to pay a fee annually. The registration fee is $150 for calendar year 1991. Effective tax year 1990, registration fees paid are not allowed to be credited against the tax due. See page 2 for details.
2. Tax Rates — The Payroll tax rate is reduced from 1.6% to 1.5% effective July 1, 1990. The Business tax rates are also reduced effective July 1, 1990. See Tax Rate Schedule on page 6.

GENERAL INFORMATION

The Payroll Expense Tax and Business Tax, as authorized by their respective ordinances, are two separate and distinct taxes. They have different tax measures, exemption provisions and apportionment formulas. The filing period is on a calendar year basis.

The tax to be paid is the higher of the two taxes as calculated under the Payroll Expense Tax and Business Tax Ordinances. However, taxpayers whose higher tax is $2,500 or less are exempt under the provisions of the Small Business Exemption sections of the ordinances (refer to page 9, "Consolidation of Businesses, Classifications and Locations" for additional information).

ANNUAL BUSINESS REGISTRATION

Effective 1968, every person (sole proprietor, partnership or corporation) doing business in the City and County of San Francisco must register and is subject to pay a registration fee annually. An annual registration certificate will be issued unless the registrant owes business, payroll or other unsecured taxes and license fees to the City and County.

Businesses with gross receipts of less than $15,000 from all activities the previous tax year or new businesses with estimated gross receipts of less than $15,000 for the current tax year are exempt from the registration fee. All businesses, however, must register annually.

A person whose 1990 Business Tax or 1990 Payroll Expense Tax is over $2,500 may not deduct the registration fee paid from such tax.

PAYROLL EXPENSE TAX ORDINANCE

The Payroll Expense Tax is a tax on the payroll expense of persons and associations doing business in San Francisco. The ordinance became effective October 1, 1970. In summary, the ordinance imposes a tax on all businesses who engage, hire, employ, or contract with one or more individuals, as employee, to perform work or render services within San Francisco.

DEFINITIONS:

1. Payroll Expense — the total compensation paid, including salaries, wages, commissions and other compensation to all individuals who, during any tax year perform work or render services in whole or in part, in San Francisco. Employee contributions to qualified cash or deferred arrangements under Section 401(k) of the Internal Revenue Code ("401(k) plans") must be reported as taxable payroll expense. Employers' portions of federal and state payroll taxes, health insurance, pension plans, etc. are not taxable.
2. Business and Doing Business — any activity, enterprise, profession, trade, or undertaking of any nature by an individual, partnership, corporation, etc. that qualifies under any of the factors described in sections 902 and 905 of the ordinance.
3. Employee:
   (a) Any individual who qualifies as an employee within the meaning of Division 4, Chapter 2, Article 2 of the Labor Code of the State of California.
   (b) A real estate salesperson is an employee of the broker under whom he or she is licensed.
4. Association — partnership, limited partnership, or any other form of unincorporated business or enterprise, owned by two or more persons.

EXEMPTIONS FROM PAYROLL TAX:

1. Activities on which taxation is prohibited by the Constitution or laws of the United States or State of California are exempt.
2. Organizations having a formally recognized exemption from income tax pursuant to Sections 501(c) or 501(d) or 401(a) of Title 26 of the United States Code, as qualified by Sections 502, 503, and 504, are exempt. Organizations exempt under these sections are liable for the tax on payroll expense attributable to unrelated business receipts.
3. Taxpayers whose computed tax is $2,500 or less are exempt under the Small Business Exemption. However, all taxpayers are subject to pay the registration fee.
4. Skilled nursing facilities licensed under Title 22, Calif. Adm. Code, Div. 5, are exempt starting 1-1-83.

APPORTIONMENT OF PAYROLL:

Payroll expense attributable to the City and County of

San Francisco (and thus subject to the tax) shall be determined as follows:

1. Employees who perform work or render services exclusively in San Francisco: 100% of their payroll expense is attributable to San Francisco.
2. Employees who perform work or render services partly within and partly without San Francisco: the most appropriate method of computing their payroll expense attributable to San Francisco is to use the percentage of the total number of working hours employed within San Francisco compared to the total number of working hours employed within and without San Francisco. An optional method for salesmen and deliverymen who spend all their time in the field is to compute an overall percentage of San Francisco sales compared to total sales serviced by such individuals.
3. Employers who have payroll expense consisting of employments within and without the boundaries of San Francisco may use a representative test period or conduct a survey based on factual data to arrive at a formula with which to calculate the percentage of payroll expense attributable to San Francisco. Any formula so established will be subject to review and correction by the Tax Collector's audit staff. The data supporting the formula should be maintained as a part of office records for audit and review purposes.

BUSINESS TAX ORDINANCE

The Business Tax is a gross receipts tax on all business activities performed by any person or association in San Francisco. The ordinance became effective October 1, 1968. It requires every firm doing business in San Francisco to obtain annually a Business Tax Registration Certificate from the Tax Collector's Office. The taxpayer is required to display the Certificate on his business premises.

DEFINITIONS:

1. Business — includes all activities engaged in or caused to be engaged in within San Francisco with the object of gain, benefit or advantage, whether direct or indirect, to the taxpayer or to another or to others.

2. Gross Receipts — The total amount charged or received for all sales of goods, services performed, etc., including all receipts, cash credits and property of any kind or nature. Excludable items are bad debts, returned merchandise, cash and trade discounts.

EXEMPTIONS FROM BUSINESS TAX:

1. Activities on which taxation is prohibited by the Constitution or laws of the United States or State of California are exempt.
2. Receipts of any organization having a formally recognized exemption from income taxation pursuant to Section 501(c) or 501(d) or 401(a) of Title 26 of the U.S. Code as qualified by Sections 502, 503, 504 and 508.
3. Transactions between affiliated corporations, which own at least 80% of the voting and non-voting stock of the other, are exempt.
4. Business Class 03 — Hotel, Apartments, etc. Structures under this classification containing 3 units or less are exempt.
5. Taxpayers whose computed tax is $2,500 or less are exempt under the Small Business Exemption. However, all taxpayers are subject to pay the registration fee.
6. Skilled nursing facilities licensed under Title 22, Calif. Adm. Code, Div. 5, are exempt starting 1-1-83.

APPORTIONMENT OF GROSS RECEIPTS:

1. Gross receipts of Class 07 service (labor type) businesses should be apportioned according to the percentage of such services that are performed in San Francisco to arrive at taxable gross receipts. However, occasional work out of San Francisco by San Francisco based businesses is considered taxable.
2. Gross receipts of retailers (Class 08) and wholesalers (Class 13) selling within and without San Francisco are subject to tax per Tax Collectors's Ruling #6, as follows:

   (a) San Francisco manufacturers — 100% of California deliveries.

   (b) Businesses selling, but not manufacturing in San Francisco — The percentages of taxability of California deliveries are determined by the number of the following factors occurring in San Francisco:

   30% — location of responsible sales office.

   30% — place to which merchandise is delivered (customer's location).

   20% — place from which merchandise is shipped.

   20% — location of billing and collection office.

   Use of lesser percentages is permissible only upon establishing by presentation to the Tax Collector clear and cogent evidence that the above guidelines result in unfair taxation of extraterritorial values.

3. Personal property rentals (Class 06), per Tax Collector's Ruling #6-C, are apportioned the same as retail and wholesale sales above, except that the 30% delivery factor is replaced by a 30% factor for the place where the property is used. If place of use is unknown, then use place to which the property is delivered.
4. Commissions received by commission merchants or brokers (Class 01) should be apportioned according to where the work is done.

BUSINESS TAX CLASSIFICATIONS:

(Ordinance Sections 1004.00 - 1004.16)

00 — Fixed Place of Business includes businesses having no taxable receipts.

01 — Commission Merchant or Broker is defined as essentially a broker of merchandise who sells goods not owned by himself. Only commissions are taxable. For administrative convenience, realty, insurance, travel, etc. brokers are also included in this classification.

02 — Contractors are liable for the tax on the total contract price on all San Francisco projects. This classification does not allow deductions for subcontractor payments or consultant fees. Commencing January 1989, a contractor performing work in San Francisco for which a reroofing permit is required shall display a registration tag on every company vehicle with a commercial license used by the contractor in the conduct of such work.

03 — Hotels, Apartments, etc. Persons renting or letting apartments in a structure of 4 units or more are liable for the tax. Owner occupancy of one or more of the 4 units does not exempt the structure from the tax.

04 — Laundry, Cleaning and Dyeing, Agent, etc.

05 — Lending Money, etc.

06 — Personal Property Rental includes the lease or rental of tangible property such as autos, computers, furniture, equipment, etc.

07 — Other Businesses. This is a miscellaneous classification that includes all means of livelihood not specifically taxed by other provisions of this ordinance; i.e., commercial building operators, real estate loan companies, automobile repair shops, barbers, doctors, attorneys, condominium developers, etc.

08 — Retail Sales is defined as the sale of goods and wares to the consumers thereof.

09 — Storage, Freight Forwarding.

10 — Telephone, Gas, Electric, Steam, Railroad Services.

11 — Transporting Persons for Hire includes revenue form San Francisco mileage of taxis, buses, etc.

12 — Trucking-Hauling includes trucks and tractors used in intracity hauling of property.

13 — Wholesale Sales is defined as the sale of goods and wares for resale.

15 — Architects and Engineers are liable for the tax on projects at any location based on the percentage of time worked in San Francisco. This classification does not allow deductions for subcontractor payments or consultant fees.

16 — Nonprofit Garage Corporations.

TAX COLLECTOR BUSINESS TAX RULINGS:

1. Declares banks constitutionally exempt.
2. Declares insurance companies and agents constitutionally exempt, but not insurance brokers.
3. Defines various exempt non-profit organizations.
4. Classifies notary publics as class 07.
5. Declares as taxable persons doing business in San Francisco with no fixed place of business here.

6. Apportions receipts of retailers, wholesalers, and personal property lessors — classes 08, 13, and 06.
7. Exempts interest on bank deposits, dividends, etc.
8. Declares rentals of commercial property taxable under class 07.
9. Apportions receipts of savings and loan associations.

PAYROLL/BUSINESS TAX RATE SCHEDULE

Payroll Expense Tax Rates, 1990:

January—June is 1.6%

July—December is 1.5%

Business Tax Rates, 1990:

Column A Business Class	Column B Tax Rate per $1,000 or fraction thereof	
	Jan-June	July-Dec
00	None	None
01	$ 3.20	$ 3.00
02	3.20	3.00
03	1.60	1.50
04	1.60	1.50
05	See Note 1	
06	3.20	3.00
07	3.20	3.00
08	1.60	1.50
09	3.20	3.00
10	1.31	1.23
11	3.20	3.00
12	See Note 2	
13	1.31	1.23
15	3.20	3.00
16	267.00	250.00

Note 1: Class 05 is $800 for 1990.

Note 2: Trucking-Hauling (Class 12) includes trucks and tractors at 7¼¢, 16¢, 17¢ per day of use in intracity hauling of property, January—June 1990; 7¢, 15¢, 16¢ July—December 1990. Taxable payroll expense is computed by dividing total revenue into intracity (San Francisco to San Francisco) revenue, multiplying that percentage times total payroll to arrive at taxable payroll, subject to 1.6% and 1.5% tax.

INSTRUCTIONS FOR TAXPAYERS WITH MULTIPLE LOCATIONS, CLASSIFICATIONS AND/OR BUSINESSES:

1. **Multiple Locations** — Gross receipts and payroll of a taxpayer with more than one location within the same business classification should be reported under one account number. The Payroll and Business Tax Statement AA of taxpayers with multiple locations under one account number will indicate only the main location or "Various Locations" on its face.
2. **Multiple Classifications** — A taxpayer with multiple activities (i.e., retail, wholesale, service, apartment house, etc.) should have an account number for each class of receipts.
3. **Consolidation of Businesses, Classifications and Locations** — If a taxpayer (sole proprietor, partnership, or corporation) has more than one business, business classification, or location, he must consolidate all his businesses, classifications and locations on one Statement AA to determine whether or not he is entitled to the $2,500 Small Business Exemption and to pay the proper tax.

INSTRUCTIONS TO COMPUTE BUSINESS TAX:

The Business Tax is computed in the Worksheet portion of the 1990 Payroll and Business Tax Statement AA, by referring to the Business Tax Rate Schedule, as follows:

1. Locate in Column A the proper business classification.
2. Compute the tax on taxable receipts for the year by using the tax rates in Column B.
3. Businesses with more than one classification repeat steps 1 and 2 above for each class, using lines 2 through 4 of the Worksheet portion of Statement AA of major account number (class).

INSTRUCTIONS TO COMPUTE PAYROLL TAX:

1. The amount of tax is 1.6% of the payroll expense attributable to San Francisco from January 1 to June 30,1990, and 1.5% from July 1 to December 31, 1990.
2. In determining payroll expense, associations (partnerships, etc.) shall include distributions (payments, etc.) made by such association to those having an ownership interest in such association to the extent said distributions are determined without regard to profits or losses and are for work performed or services rendered.
3. The tax is computed on the Worksheet of the Payroll and Business Tax Statement AA, as follows:

   (a) Determine your total San Francisco payroll expense

incurred in January—June 1990 and in July—December 1990.

(b) Determine your non-taxable San Francisco payroll expense included in step (a).

(c) Compute your tax due by subtracting (b) from step (a) and multiplying the difference by:

(1) 1.6% for January—June 1990.

(2) 1.5% for July—December 1990.

EXAMPLE:

A taxpayer has taxable sales of $5,456,853 and total payroll of $838,524 less $111,600 payroll earned outside San Francisco by his salesmen. The detail and tax computations are as follows:

A. Business Tax Computation:

Class	Receipts	Rate Per $1,000*	Tax
1. 3 Jan-Jun	$2,507,749	$ 1.60	$ 4,012.80
July-Dec	2,010,377	1.50	3,016.50
2. 07 Jan-Jun	487,721	3.20	1,561.60
Jul-Dec	451,006	3.00	1,356.00
3. Totals	$5,456,853		$9,946.90

*Rate per $1,000 or fraction thereof

B. Payroll Expense Tax Computation:

	Payroll	Rate	Tax
1. Total SF payroll,			
Jan-Jun	$441,086		
Out of S.F.	- 59,573		
	$381,513	1.6%	$ 6,104.21
2. Total SF payroll			
Jul-Dec	$397,436		
Out of S.F.	- 52,027		
	$345,411	1.5%	$ 5,181.17
3. Totals	$726,924		$11,285.38

C. The higher of the two taxes computed above is the Payroll Expense Tax of $11,285.38

D. Since $11,285.38 exceeds the $2,500 Small Business Exemption, the full $11,285.38 is due and payable.

PREPAYMENTS

In July 1991 all businesses that paid over $2,500 in Payroll Expense Tax or Business Tax for the year 1990 are required to pay one half of that 1990 tax as a prepayment on the tax due for the year 1991. Late prepayments are

subject to 10% penalty and 1% interest per month from August. Such prepayments should be deducted from your 1991 tax liability due January 1, 1992. Prepayments will be required every July.

If the taxpayer can establish by clear and cogent evidence that said prepayment will amount to more than the total tax liability anticipated for 1991, taxpayer should attach such evidence to the prepayment bill and pay one half of such 1991 tax. Such adjustment is subject to approval of the tax collector's office.

FILING INFORMATION

1. Every taxpayer, regardless of whether or not he is subject to the tax under the Payroll Expense Tax or the Business Tax Ordinance, is required to file an annual statement showing the calculation of his Payroll and Business Taxes, unless he is notified to the contrary in writing by the Tax Collector.

2. The higher of the Payroll Expense Tax or the Business Tax is due and payable immediately after the end of the period covered.

   If not paid by 5:00 PM or mailed and postmarked by 11:59 PM on THE LAST DAY OF FEBRUARY, penalty and interest will be added as follows:

   (a) Penalty — Ten percent (10%) of tax due.
   On delinquent determinations an additional ten percent (10%) will be added if unpaid 30 days after the date of the determination statement.

   (b) Interest — One percent (1%) per month, or fractional part thereof, of the tax until paid.

3. A Final Statement with payment is due immediately upon the selling or quitting of a business; accounting records and reports should be available for audit or review.

   Also, his successors or assigns shall withhold sufficient of the purchase price to cover the seller's tax liability until such former owner produces a Clearance Certificate from the Tax Collector showing that no amount is due. Otherwise the purchaser is personally liable to the extent of the purchase price. The escrow agent should bring to the attention of the purchaser and seller of a business (including commercial and apartment buildings) the possible liability of the purchaser.

4. Tax Collector's request for financial information: Section 909(b) of the Payroll Expense Tax Ordinance and Section 1009(b) & (d) of the Business Tax Ordinance provide that a taxpayer who fails to comply with the Tax Collector's written request for financial information shall be liable for a penalty of $100 in addition to any other liability that may be imposed under the ordinances. The mailing of tax statements by the Tax Collector will serve as his written request for such information.

5. Determination if no return is made: In the event that no 1990 return is filed, the Tax Collector will estimate the amount of tax due, adding 10% penalty and interest at 1% per month. If the determination remains unpaid and a Petition for Redetermination is not filed within 30 days, the determination becomes final and an additional 10% penalty is assessed.

6. Audit of financial records: Every person doing business in San Francisco is required to make available in San Francisco any financial records and papers requested by the Tax Collector or his duly authorized agent or employee for the purpose of determining the correct amounts of payroll and business taxes. Any information obtained by the Tax Collector shall be kept confidential.
   The statute of limitations is 3 years for routine audits. However, there is no time limit on years for which no tax statements were filed or there was fraud or intent to evade the taxes.

7. Your cancelled check is your receipt. To avoid any delay, be sure your check is signed and in good order.

8. Taxpayers, please note: It is your responsibility to obtain and file your Payroll and Business Tax Statement. Our mailing of statements is for your convenience. If you do not receive a statement, please call 554-4426 or come to Room 107, City Hall.

9. Return all Payroll and Business Tax Statement AA's to insure proper credit to your account or accounts.

10. Make checks or money orders payable to the Tax Collector and mail to Room 107, City Hall, San Francisco, CA 94012.

Attachment 4

November 8, 1991

TAX COLLECTORS OFFICE
BUSINESS TAXES DIVISION
CITY AND COUNTY OF SAN FRANCISCO
25 Van Ness Avenue, Rm. 220 San Francisco, CA 94102 (415) 554-9450

BUSINESS/PAYROLL TAXES COLLECTIONS (INCLUDING REGISTRATION FEES)
TAX PERIOD 1975-76 to TAX PERIOD 1990-91

TAX PERIOD	BUSINESS TAX Various Rates*	PAYROLL TAX	PAYROLL TAX RATE	REGISTRATION FEE	TOTALS
1975-76	$ 4,322,283.00	$ 30,325,972.00	1.1%	$ .00	$ 34,648,255.00
1976-77	4,737,995.00	32,656,510.00	1.1%	.00	37,394,505.00
1977-78	3,466,762.00	34,436,147.00	1.1%	.00	37,902,909.00
1978-79	4,026,955.00	38,639,686.00	1.1%	.00	42,666,641.00
1979-80	4,949,785.00	42,710,846.00 from 4/1/80	1.1% 1.5%	.00	47,660,631.00
1980-81	10,270,236.00	61,660,183.00	1.5%	.00	71,930,419.00
1981-82	11,509,140.00	77,798,020.00	1.5%	.00	89,307,160.00
1982-83	11,430,562.00	83,723,687.00	1.5%	.00	95,154,249.00
1983-84	12,075,069.00	85,020,439.00 from 1/1/84	1.5% 1.4%	.00	97,095,508.00
1984-85	12,703,178.00	83,891,064.00 from 1/1/85	1.4% 1.5%	.00	96,594,242.00
1985-86	13,948,824.00	92,596,437.00	1.5%	.00	106,545,261.00
1986-87	15,335,920.00	97,488,089.00	1.5%	.00	112,824,009.00
1987-88	16,558,914.00	102,168,897.00 from 7/1/88	1.5% 1.6%	.00	118,727,811.00
1988-89	18,835,514.00	112,115,097.00	1.6%	8,183,000.00	139,133,611.00
1989-90	20,274,862.00	120,631,779.00 from 7/1/90	1.6% 1.5%	8,784,930.00	149,691,571.00
1990-91	21,151,231.00	126,637,022.00	1.5%	7,477,658.00	155,265,911.00

*Tax Rate schedule attached.

Source: Tax Collector Annual Reports 1975-1978
Treasurer/Tax Collector Annual Reports 1979-1991

Footnotes:

Small Business Exemption:
1977 thru 1981 = If computed tax is $500 or less
1982 thru 1991 = If computed tax is $2500 or less

Registration Fees:
1989 - $200 Fee may be applied toward Business/Payroll Tax liability
1990 - $200 Fee may be applied toward Business/Payroll Tax liability
1991 - $150 Fee may not be applied toward Business/Payroll Tax liability. Quarterly proration allowance for new businesses.
1992 - $150 Fee may not be applied toward Business/Payroll Tax liability. Quarterly proration allowance for new businesses.

attachment 5 pg 1

BUSINESS/PAYROLL TAX RECEIPTS BY CLASS FOR YEAR 1988 AS OF 07/11/91

CL	# BUS	GROSS REC.	PAYROLL	# BUS	GROSS REC.	TAX DUE	# BUS	PAYROLL	TAX DUE
00	218	2,414,981.24	117,763,783.18				60	114,843,478.96	1,780,873.04
01	3,636	1,253,124,109.48	837,014,769.54	71	139,695,139.91	422,188.69	380	778,624,522.37	10,652,235.49
02	7,795	1,864,700,948.51	425,590,619.65	152	880,407,652.32	2,718,426.04	320	280,548,040.53	4,312,327.79
03	11,753	1,291,277,408.22	303,766,822.25	304	59,213,355.52	96,908.72	186	283,747,892.22	4,435,622.31
04	1,012	62,987,798.89	15,224,067.29	12			22	9,742,363.53	151,125.01
05	61	28,840,598.40	7,912,674.16	5	21,023,989.00	65,645.00	12	4,717,930.60	73,195.93
06	730	500,102,328.72	203,593,039.35	55	130,679,846.04	359,581.77	83	187,994,890.88	2,913,624.15
07	38,155	9,213,870,651.98	3,115,053,498.02	739	2,451,000,957.96	7,596,195.83	2,502	2,689,976,481.60	41,184,483.67
08	21,635	7,006,842,944.27	1,405,120,341.53	265	555,601,850.41	865,117.97	1,357	1,155,785,009.57	17,947,590.28
09	138	22,007,854.46	11,573,918.06	2	3,462,830.00	10,768.44	17	8,755,270.10	135,466.88
10	48	875,552,521.87	764,992,930.05	2	58,567,401.45	74,315.03	17	764,594,423.50	11,877,325.57
11	157	47,042,162.75	22,176,317.34	4	17,875,672.46	55,430.44	13	18,477,088.18	284,781.51
12	198	5,804,174.54	10,258,737.07	2		8,391.57	19	7,596,734.97	117,737.46
13	8,746	3,891,144,554.57	826,019,526.32	262	1,062,466,009.10	1,402,831.51	756	719,576,751.05	11,150,647.58
15	1,006	600,928,834.67	244,766,412.09	10	6,939,099.23	21,777.44	210	230,623,767.43	3,583,184.50
16	7	11,175,660.62		5	11,175,660.62	2,898,790.65			
TOTAL	95,295	26,677,817,532.89	8,312,827,455.90	1,890	5,396,109,464.02	16,596,369.10	5,954	7,257,604,645.49	110,602,221.17
ACTIVE	56,282								
INACT	39,013						7,844	127,198,590.27	*

BUSINESS/PAYROLL TAX RECEIPTS BY CLASS FOR YEAR 1989 AS OF 07/11/91

CL	# BUS	GROSS REC.	PAYROLL	# BUS	GROSS REC.	TAX DUE	# BUS	PAYROLL	TAX DUE
00	218	10,193,197.87	116,440,817.31	2		12,750.00	56	113,719,830.65	1,820,478.57
01	3,636	1,415,916,302.16	719,249,219.30	92	247,430,298.26	525,209.11	382	663,685,904.05	10,619,000.22
02	7,795	1,935,027,433.02	422,985,338.42	176	961,807,333.42	3,070,011.69	329	264,493,953.83	4,232,142.55
03	11,753	1,413,883,641.98	320,172,291.28	444	75,773,539.90	131,455.44	209	300,344,736.73	4,805,514.53
04	1,012	64,422,091.16	15,008,332.26	23			25	9,629,656.51	154,074.79
05	61	7,880,164.53	6,607,061.81	4			15	5,727,811.99	91,645.20
06	730	494,757,842.96	209,090,973.39	53	141,433,849.57	412,010.42	82	193,061,158.24	3,089,029.28
07	38,155	9,784,791,627.22	3,333,002,719.27	879	2,578,346,026.11	8,333,621.70	2,592	2,849,455,599.61	45,316,793.95
08	21,635	6,586,414,185.44	1,474,447,552.05	326	759,430,785.69	1,228,183.79	1,441	1,218,408,243.60	19,533,460.89
09	138	22,307,775.65	10,299,400.10	4	4,245,904.00	13,586.67	17	8,062,523.11	129,005.42
10	48	916,475,343.96	602,551,343.10	3	55,913,133.80	73,246.19	15	601,958,968.39	11,024,497.07
11	157	47,740,313.62	21,629,247.65	6	18,766,103.35	60,050.20	14	17,847,553.11	285,557.19
12	198	13,496,249.99	10,670,678.19	3	440,052.29	4,488.62	19	8,329,266.65	133,267.15
13	8,746	4,147,734,286.20	882,252,762.75	277	1,146,760,039.16	1,609,682.09	770	762,541,510.42	12,264,365.00
15	1,006	701,164,205.25	248,136,962.65	13	20,945,630.01	67,022.54	209	231,898,387.59	3,729,382.08
16	7	11,620,844.29	645,501.03	4	11,620,844.29	3,102,883.82	1	285,298.71	4,544.78
TOTAL	95,295	27,573,825,508.30	8,393,230,200.56	2,309	6,022,913,539.85	18,644,402.28	6,176	7,249,450,403.19	117,232,778.67
ACTIVE	56,282								
INACT	39,013						8,485	135,877,180.95	*

BUSINESS/PAYROLL TAX RECEIPTS BY CLASS FOR YEAR 1990 AS OF 07/11/91

CL	# BUS	GROSS REC.	PAYROLL	# BUS	GROSS REC.	TAX DUE	# BUS	PAYROLL	TAX DUE
00	218	12,019,522.56	126,947,667.10	1	.	12,660.00	53	124,335,271.78	1,932,106.71
01	3,636	1,313,752,765.19	706,932,895.46	69	208,020,603.59	646,718.42	338	647,714,028.06	10,092,378.68
02	7,795	2,259,783,712.65	457,235,463.26	152	1,066,926,781.60	3,307,303.96	319	316,110,429.50	4,908,278.94
03	11,753	1,554,658,379.06	339,662,088.53	235	76,815,872.99	128,504.72	191	318,786,637.30	4,936,502.50
04	1,012	58,635,958.09	14,024,033.30	15	.		16	9,159,113.04	141,929.02
05	61	12,590,993.48	8,091,153.80	3			15	6,867,626.31	106,137.13
06	730	468,481,901.85	210,505,886.10	42	100,234,375.73	300,850.01	70	197,504,409.38	3,063,119.23
07	38,155	9,388,609,392.40	3,426,092,340.33	718	2,642,798,894.21	8,142,778.43	2,426	2,960,227,799.01	45,955,221.58
08	21,635	6,433,912,943.26	1,472,781,352.50	275	888,648,384.90	1,410,042.28	1,292	1,218,540,221.55	18,289,593.68
09	138	26,487,855.12	11,225,009.51	4	6,124,595.27	18,918.95	17	8,816,889.02	135,968.78
10	48	942,970,041.69	716,023,430.08	1	38,027,951.86	48,326.78	16	715,819,274.75	11,111,866.90
11	157	44,125,843.52	17,180,386.34	5	23,852,348.18	73,920.52	11	12,762,476.40	197,334.27
12	198	6,013,492.20	8,997,907.86	2		8,628.00	14	6,613,878.50	102,292.70
13	8,746	4,192,907,381.00	940,835,782.63	231	1,117,677,809.42	1,431,876.63	709	835,873,190.84	12,424,943.82
15	1,006	589,260,451.84	260,811,465.72	9	11,735,964.33	36,295.90	207	245,881,553.19	3,805,226.83
16	7	11,775,753.08	884,618.60	4	11,775,753.08	3,042,564.09			
TOTAL	95,295	18,910,186,407.01	8,718,231,472.12	1,766	6,192,639,335.16	18,609,388.69	5,694	7,625,012,998.63	117,202,900.77
ACTIVE	56,282								
INACT	39,013						7,460	135,812,289.46	*

attachment 6

\C Revenue Team

'A RESOURCES INC. – I/O Metro View 0291
E: SFMCIO91.WK1
Francisco, CA METROPOLITAN AREA (San Francisco,San Mateo and Marin Counties)

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
TAL OUTPUT illions	37,771	37,360	37,572	31,837	30,640	31,968	33,067	33,284	33,883	34,379	35,527

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
TAL OUTPUT illions	36,126	36,343	37,518	38,674	39,735	40,844	41,861	42,875	44,015	45,236	46,511

Attachment 7

Selected U.S. Economic Indicators
FORECAST: DRI TREND25YR0891 View

DATE	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Real GNP (Bil $82)	2826.7	2958.7	3115.2	3192.3	3187.2	3248.7	3166.8	3279.1	3501.4	3618.7	3717.9	3845.3	4016.8
% Change	n.a.	4.7	5.3	2.5	-0.2	1.9	-2.5	3.6	6.8	3.4	2.7	3.4	4.5
Implicit Deflator	63.0	67.3	72.2	78.6	85.7	93.9	100.0	103.9	107.8	111.0	113.8	117.4	121.3
% Change	n.a.	6.7	7.3	8.8	9.1	9.6	6.5	3.8	3.8	3.0	2.6	3.1	3.3
CPI (1982-84=100)	56.9	60.6	65.2	72.6	82.4	90.9	96.5	99.6	103.9	107.7	109.7	113.7	118.4
% Change	n.a.	6.5	7.6	11.3	13.5	10.3	6.1	3.2	4.3	3.6	1.9	3.7	4.1
T-Bill (3 Mos.)	4.97	5.27	7.19	10.07	11.43	14.03	10.61	8.61	9.52	7.48	5.98	5.78	6.67
T-Bond (30 Yr)	n.a.	n.a.	8.49	9.29	11.30	13.44	12.76	11.18	12.39	10.79	7.80	8.58	8.96
Mortgage Rate	n.a.	n.a.	n.a.	11.19	13.77	16.64	16.09	13.23	13.87	12.42	10.18	10.21	10.34

Selected U.S. Economic Indicators
FORECAST: DRI TREND25YR0891 View

Annual averages not Eoy

DATE	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Real GNP (Bil $82)	4117.7	4157.3	4152.0	4259.0	4379.0	4506.0	4629.0	4755.0	4864.0	5001.0	5136.0	5260.0
% Change	2.5	1.0	-0.1	2.6	2.8	2.9	2.7	2.7	2.3	2.8	2.7	2.4
Implicit Deflator	126.3	131.5	136.4	140.2	144.0	148.2	152.7	157.8	163.4	169.0	175.1	181.9
% Change	4.1	4.1	3.8	2.8	2.7	2.9	3.0	3.3	3.5	3.4	3.6	3.9
CPI (1982-84=100)	124.0	130.7	136.3	140.8	146.0	151.5	156.9	162.9	169.6	176.7	184.2	192.2
% Change	4.8	5.4	4.3	3.3	3.7	3.8	3.6	3.8	4.1	4.2	4.2	4.3
T-Bill (3 Mos.)	8.11	7.49	5.70	6.39	6.14	6.29	5.86	5.91	5.91	5.88	5.84	5.80
T-Bond (30 Yr)	8.45	8.61	8.35	8.60	8.28	8.29	7.93	7.94	7.93	7.87	7.86	7.82
Mortgage Rate	10.32	10.13	9.62	10.04	9.65	9.69	9.27	9.29	9.31	9.26	9.24	9.19
DRI's Sep. Forecast			(9.42	9.55	9.39	9.27)						

Kim Walesh
SRI International
(415) 859-6067

HOTEL TAX

Description of Tax

San Francisco levies an 11% tax on the gross receipts of city hotels. This hotel tax accounts for about 7.5% of San Francisco's tax revenue. Revenue growth was strong throughout the 1980s, averaging 13.9% per year until the 1989 earthquake. In that year (1989-90), revenues fell 5.5 % but then recovered to a 9.7% increase in 1990-91. Tax rates were raised in 1981 (8% to 9.75%), in 1986 (to 10.38%), and in 1987 (to 11%).

Estimating Future Revenue

We would expect that:

Hotel Tax revenue (R) = tax rate (t) * total hotel revenue (B)

B = f(supply, demand for hotel rooms)

The Best Equation

After testing a series of alternatives, the following equation provided the best results.

$$T = -.03668 + .33321\,(r) - .00424\,(Q) + .00001\,(GNP)$$

$$t = 2.5 \qquad t = -1.7 \qquad t = 9.3$$

$$R^2 = .99$$

- Q represents the 1989 earthquake. The San Francisco Convention and Visitors Bureau reports the earthquake had strictly a 1-year effect on hotel demand. This was confirmed by testing other alternatives.
- GNP is national GNP in nominal terms.
- r is the hotel tax rate.

5-Year Forecast

The equation was then used to make a 5-year revenue forecast. The forecast assumes a constant tax rate, no other earthquake or natural calamity, and uses the DRI GNP forecasts. Hotel

KENNETH BALLARD PG&E 415-973-2782

December, 1991

Utility Tax

Background

The City collects sizable revenues from a utility tax upon non-residential customers. The definition and collection of the tax, however, has been quite esoteric, making for a complex estimation. For instance, residential users are currently exempt but have not always been so. Some non-residential users are exempt or have partial exemptions. Self-providers (those who do not purchase directly from the utility) are *de facto* exempt.

We have chosen a method of estimation and forecasting that we think will take these realities into account. The method is called "Rate-Base". It is statistically simple but with a strong conceptual underpining.

Theory Behind the *Rate-Base* Estimation Method

Any ***source of tax revenues*** can be defined in a particular fiscal year as an effective rate of collection times a statutory base. This is a very common technique which uses the formula shown below:

$$T = k\,R\,B \qquad (1)$$

where **T** denotes the level of tax collections, **R** is the legislated tax rate and **B** the legislated tax base. The mnemonic **k** represents a time-varying constant that is used to adjust for any differences between the "statute law" as opposed to the "effective" tax incidence. Because most taxes rely on a series of different rates and bases, the value of **k** is quite important as both a statistical and policy variable. The value of **k** is derived indirectly, through an empirical estimation where:

$$T = R^*\,B \qquad (2)$$

$$\text{such that} \quad R^* = k\,R = (a + b)\,R \qquad (3)$$

The mnemonic **R*** refers to a statistically estimated tax rate that is based upon the changes of the ***effective*** tax rate **k R** over time. Using this approach, the tax base **B** *is* now assumed to always be equal to its full legislated maximum. The computation of **R*** *incorporates* all of the differences between the effective and legislated values for both **R** and **B**.

When the legislated rate **R** remains unchanged over time we can simplify the equation system by combining equation 3 and equation 1.The result is our *final* equation 4:

$$T = a + b\,B \qquad (4)$$

For our study, **a** is an estimated constant term and **b** is an estimated beta value . Our method of estimation is econometric, using an ordinary least squares technique.

San Francisco PG&E Utility Tax Equation

An equation estimated for the PG&E component of the San Francisco City / County utility tax. This covers nearly all of the gas and electric utility tax collections by the city. The results of the estimation are shown below:

T = 6105.5 + 0.02315 Tax base
(2.30)

\+ 2470.4 Dummy

r-squared is 0.50 Durbin-Watson is 1.48
adj. r-squared is 0.40

The "Dummy" refers to a dummy variable that accounts for mid-year changes in tax base definitions. This occurred, for instance, when the residential exemption was re-instituted in mid-1988. Without the dummy we would misrepresent the fiscal versus calendar year collection pattern. When there is no mid-year change, as since 1989, the dummy is set to zero.

The historical data for the PG&E tax base is taken from the PG&E Customer Accounting Department. The base is considered to include (1) all *commercial and industrial* and *interruptible* gas revenues and (2) all *light and power* electric revenues.

San Francisco PG&E Utility Tax Forecast

We now use the equation above to make a collections forecast. First, however, we must make an independent forecast of the statutory tax rate and tax base.

The ***Tax Rate*** is assumed held constant over time; that is, it does not change from its current level.

The forecast data for the ***Tax Base*** is computed using the equation shown below:

$$B_t = B_{t-1} * E_t / E_{t-1} * P_t / P_{t-1} * 100 / (100 - 0.33 * \{\%P_t - \%CPI\})$$

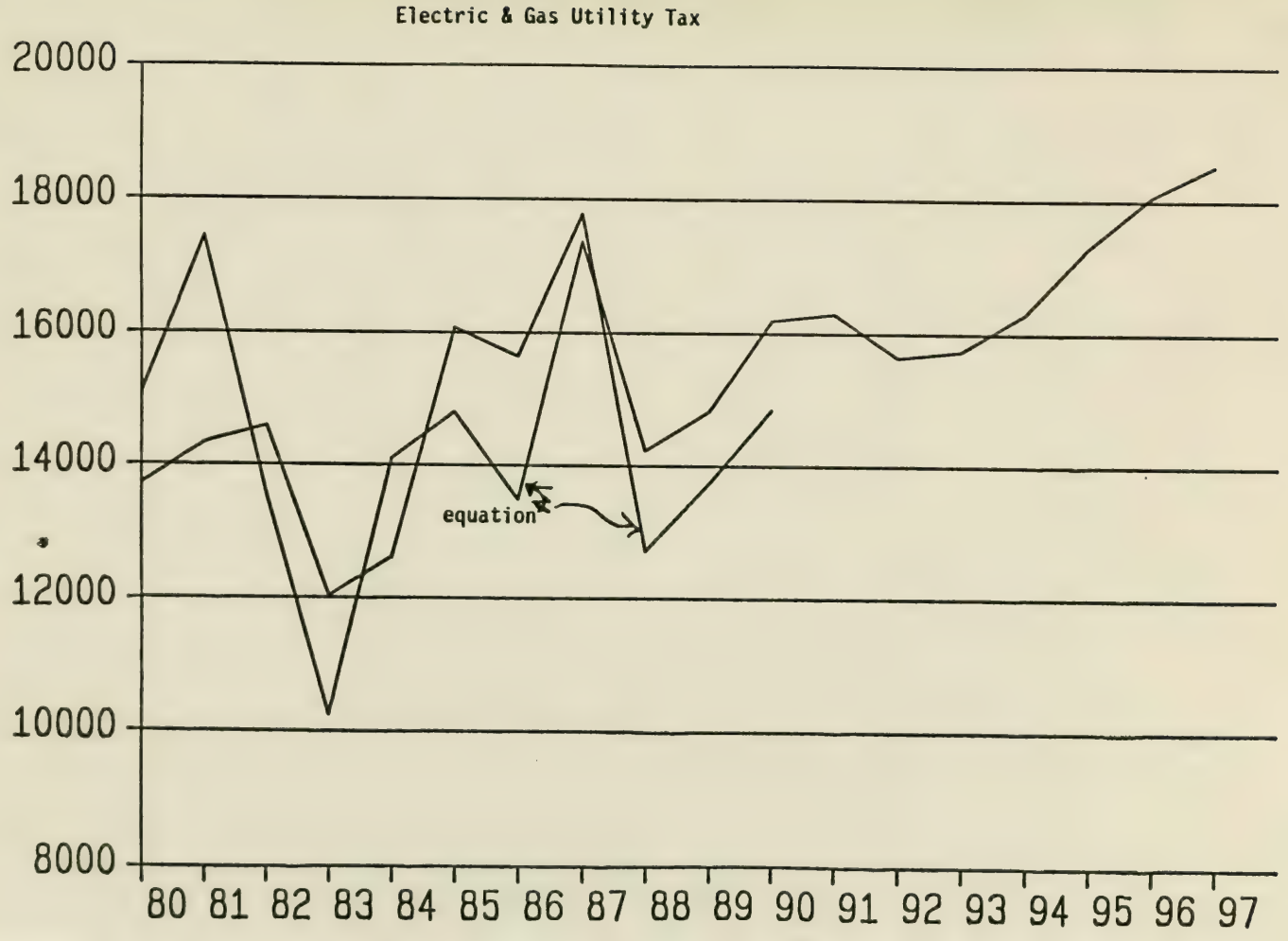
The tax base in the current (forecast) period (t) is computed as the tax base in the previous period (t-1) ; times the change in San Francisco City employment **E** over the past period; times the change in gas and electric prices **P** over the past period; times a price elasticity adjustment.

The price elasticity is the amount of ***quantity*** change that would result from a relative ***price*** change. In the equation above, the elasticity is ***set*** at 33 percent. That is, for every 3% increase in PG&E prices that are above or below the general rate of inflation, we will expect a corresponding change of 1% in the quantity of energy consumed. The 33 percent elasticity is fairly standard for medium-term energy consumption, but low relative to most other commodities. For the forecast, the change in the Consumer Price Index **CPI** is used to adjust for the average (entire economy) inflation.

Our estimation and forecast was made using AREMOS software on an IBM (compatible) personal computer. The code, which includes a printout of the data base, is attached. A graph of the forecast is also attached.

Forecast Data

Fiscal Year	*$ Ths.*
1991 - 92	16,291
1992 - 93	15,639
1993 - 94	15,741
1994 - 95	16,298
1995 - 96	17,291
1996 - 97	18,065
1997 - 98	18,526


Electric & Gas Utility Tax
20000
18000
16000
14000
12000
10000
8000
equation
80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97

Dick Bruins
282-8728

PROJECTION of UTILITY USERS TAX
TELEPHONE UTILITIES PORTION

The telephone portion of the Utility Users Tax was developed using a simple model which included three independent variables. Those variables are as follows:

- A variable to account for the periodic exemption of residential use (called "invresx") which equals 1 when residential use is taxed. This variable (weighted for the number of months in use in any particular year - i.e., half a year = a weight of 0.5) is combined (multiplicatively) with the count of SF households and the average annual rate for basic residential service.

- The level of SF employment in the finance, insurance, and real estate industries (called "fireemp"). Those industries are relatively heavy users of telecommunications. The DRI history and forecast was used.

- A variable measuring the level of telephone rates (called "1frrate"). The basic residential service rate was used as a proxy. No other acceptable measure was available. This proxy is probably acceptable for the decade of the 1980's. Two assumptions were simulated for the forecast period. One assumes that nominal rates do not change following the 1991/2 fiscal year, the second assumes that rates fall about 1% annually from 1991/2 to 1996/7.

The chosen equation was estimated using data for the ten fiscal years 1981 - 1990, inclusive. This relatively short period was chosen so that the experience of the years after the 1984 break-up of AT&T would get relatively heavy weight.

The two alternative projections stemming from the two assumptions about future telephone rates differ as follows. The projection using the assumption that telephone rates remain constant produces a pattern where revenues fall from the fiscal 90/91 $9.0 million level by a slowing rate through fiscal 95/96, turning up slightly in fiscal 96/97 to $8.2 million. Under the alternative assumption of a 1% annual reduction in telephone rates, tax revenues fall at a faster, only slightly attenuating rate and stand at $ 7.1 million in fiscal 96/97, 13% lower than the alternative. The lower projection is recommended in the interest of conservatism and as a reflection of the rising likelihood that the steady introduction of more competition to the telecommunications industry could even accelerate telephone rates reductions, further reducing tax collections in the short term.

The following pages show the data used, the forecasting equation chosen, the projections calculated, and plots of the results.

Data Used and Projections Calculated
Telephone Utilities Portion of the Utilities Users Tax

(The definitions of the data headings are shown at the bottom of the table.)

Year	TELCOTAX	INVRESX	1FRATE	SFHHLDS	FIREEMP	FORECAST(0%)	FORECAST(-1%)
1981	8947.0	1.00	6.83	305.25	86.68	-	-
1982	8202.2	0.50	7.00	307.42	88.33	-	-
1983	6480.8	0.00	7.05	308.94	84.61	-	-
1984	7207.6	0.00	8.25	314.38	83.24	-	-
1985	11375.7	0.50	9.28	318.44	84.12	-	-
1986	14764.4	0.42	10.57	321.51	84.47	-	-
1987	15787.6	1.00	10.84	319.80	81.38	-	-
1988	10174.0	0.00	11.01	316.70	77.46	-	-
1989	9461.4	0.00	11.19	316.95	76.63	-	-
1990	9008.8	0.00	11.14	316.62	75.14	-	-
1991	-	0.00	11.00	317.41	74.51	8433.1	8433.1
1992	-	0.00	11.00 10.89	319.64	74.06	8208.4	7991.5
1993	-	0.00	11.00 10.78	320.40	73.95	8151.8	7717.8
1994	-	0.00	11.00 10.67	318.89	73.91	8130.0	7479.1
1995	-	0.00	11.00 10.57	316.79	73.88	8118.4	7270.3
1996	-	0.00	11.00 10.46	315.69	73.99	8174.0	7109.0

Explanation of Data Headings

TELCOTAX: The telephone portion of the Utility Users Tax collections, in thousands, for the fiscal year starting in the year shown.

INVRESX: The residential exemption "dummy". Equals 1.00 when residential use is taxed for the full 12 months of a fiscal year, less than 1.00 when some months are exempted.

1FRRATE The fiscal year average basic monthly residential flat rate for telephone service, in nominal dollars. Constant and 1% annual reduction alternatives shown for 1992-1996. These correspond to the two alternative forecasts shown.

SFHHLDS: The count, in thousands, of San Francisco households. History and projections from DRI's August 1991 forecast.

FIREEMP: SF employments count, in thousands, for the finance, insurance and real estate industries. History and forecast from the DRI August 1991 forecast.

FORECAST(0%): Calculated forecast of the telephone portion of the Utility Users Tax collections assuming constant overall rates 1991/2-1996/7.

FORECAST(-1%): Calculated forecast of the telephone portion of the Utility Users Tax collections assuming overall rates decline 1% annually from 1991/2-1996/7.

The forecasting equation estimated and used in the above forecasts is as follows:

$$\underset{}{\text{TELCOTAX}} = \underset{(6.34133)}{1.18868} * \text{INVRESX} * \text{1FRRATE} * \text{SFHHLDS} + \underset{(5.68921)}{506.025} * \text{FIREEMP} + \underset{(10.1925)}{1972.34} * \text{1FRRATE} - \underset{(5.76715)}{50964.5}$$

Standard Error = 495.324 R Squared = 0.9824 R-Bar Squared = 0.9736 D.W.(1) = 3.0386 D.W. (2) = 1.6854

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ée  A R E M O S  II / PC  Version 1.41D(04:24:91) eeee
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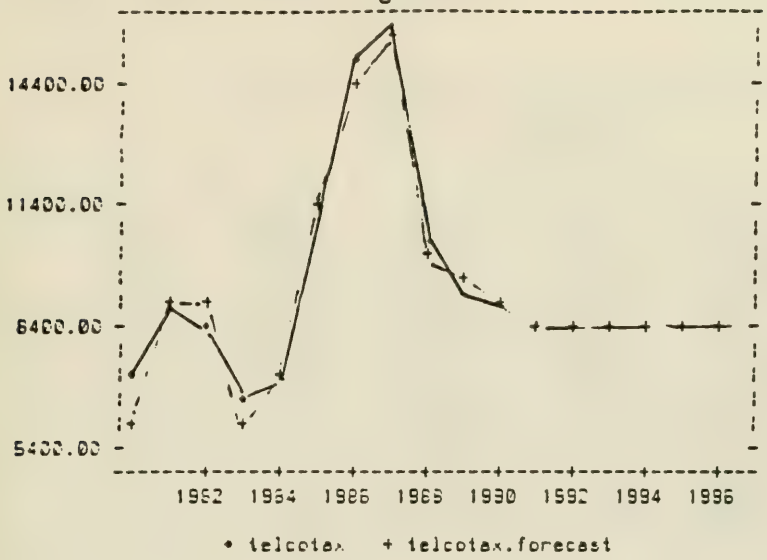
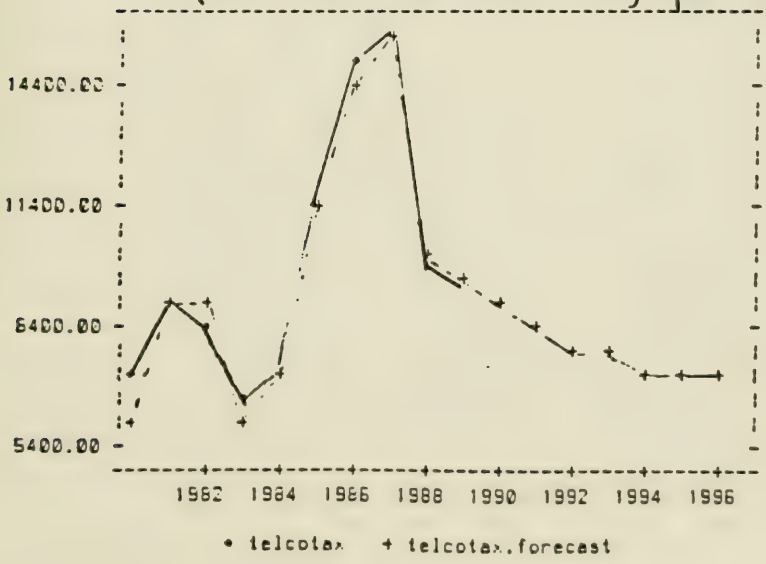
Telephone Rates constant after 1991.



FY Starting	telcotax	telcotax.forecast	telcotax-telcotax.forecast
1983	6480.60	5757.25	723.55
1984	7207.60	7426.76	-219.16
1985	11375.70	11663.47	-287.77
1986	14764.40	14322.62	441.78
1987	15787.60	15716.59	71.01
1988	10174.00	9948.63	225.37
1989	9461.40	9881.12	-419.72
1990	9008.80	9029.04	-20.24
1991	NC	8433.10	NC
1992	NC	8208.42	NC
1993	NC	8151.75	NC
1994	NC	8129.99	NC
1995	NC	8118.35	NC
1996	NC	8174.02	NC

	telcotax	telcotax.forecast	telcotax-telcotax.forecast	lfrrate	
1983	6480.80	5757.25	723.55	7.05	
1984	7207.60	7426.76	-219.16	8.25	
1985	11375.70	11663.47	-287.77	9.28	
1986	14764.40	14322.62	441.78	10.57	
1987	15787.60	15716.59	71.01	10.84	
1988	10174.00	9948.63	225.37	11.01	
1989	9461.40	9881.12	-419.72	11.15	
1990	9008.80	9029.04	-20.24	11.14	
1991	NC	8433.10	NC	11.00	falling rates
1992	NC	7991.47	NC	10.69	
1993	NC	7717.83	NC	10.78	
1994	NC	7479.12	NC	10.67	
1995	NC	7270.25	NC	10.57	
1996	NC	7108.95	NC	10.46	

Telephone Rates Fall 1% annually after 1991



Projection Assuming Constant Telephone Rates after 1991

FY Starting	telcotax	pch(telcotax)	telcotax.forecast Tax Revenue ($000)	pch(telcotax.forecast) % Change
1983	8460.80	-20.99	5757.25	-34.71
1984	7207.60	11.21	7426.76	29.00
1985	11375.70	57.83	11663.47	57.05
1986	14764.40	29.79	14322.62	22.80
1987	15767.60	6.93	15716.59	9.73
1988	10174.00	-35.56	9948.63	-36.70
1989	9461.40	-7.00	9861.12	-0.88
1990	9008.20	-4.76	9029.04	-8.62
1991	NC	NC	8433.10	-6.60
1992	NC	NC	8208.42	-2.66
1993	NC	NC	8151.75	-0.69
1994	NC	NC	8129.99	-0.27
1995	NC	NC	8118.35	-0.14
1996	NC	NC	8174.02	0.69

Projection Assuming Falling Telephone Rates after 1991

FY Starting	telcotax (£000)	pch(telcotax)	telcotax.forecast Tax Revenue (£000)	pch(telcotax.forecast) % Change
1983	6480.60	-20.99	5757.25	-34.71
1984	7207.60	11.21	7426.76	29.00
1985	11375.70	57.83	11663.47	57.05
1986	14764.40	29.79	14322.62	22.80
1987	15787.60	6.93	15716.59	9.73
1988	10174.00	-35.56	9948.63	-36.70
1989	9461.40	-7.00	9881.12	-0.68
1990	9006.80	-4.78	9029.04	-8.62
1991	NC	NC	8433.10	-6.60
1992	NC	NC	7991.47	-5.24
1993	NC	NC	7717.83	-3.42
1994	NC	NC	7479.12	-3.09
1995	NC	NC	7270.25	-2.79
1996	NC	NC	7108.95	-2.22

attachment 9

ECONOMIC INDICATORS

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
NATIONAL																	
T Bill (3 months)	11.43	14.03	10.61	8.61	9.52	7.48	5.96	5.78	6.67	8.11	7.49	5.70	6.39	6.14	6.29	5.66	5.91
Mortgage Rate	13.77	16.64	16.09	13.23	13.87	12.42	10.18	10.21	10.34	10.32	10.13	9.62	10.04	9.65	9.69	9.27	9.29
CPI	82.40	90.90	96.50	99.60	103.90	107.70	109.70	113.70	118.40	124.00	130.70	136.30	140.80	146.00	151.5	156.9	162.9
% Change	13.50	10.30	6.10	3.20	4.30	3.60	1.90	3.70	4.10	4.80	5.40	4.30	3.30	3.7	3.8	3.6	3.8
Real GNP	3187.20	3248.70	3166.00	3279.10	3501.40	3618.70	3717.90	3845.30	4016.90	4117.70	4157.30	4152.00	4259.00	4379.00	4506.00	4629.00	4755.00
% Change	-0.20	1.90	-2.50	3.60	6.80	3.40	2.70	3.40	4.50	2.50	1.00	-0.10	2.60	2.80	2.90	2.70	2.7
S.F. COUNTY																	
Employment	562.845	571.407	559.712	548.744	561.247	564.642	563.106	563.409	564.535	572.258	583.900	587.200	590.000	598.100	602.100	605.800	608.800
% Change	4.50	1.52%	-2.05%	-1.96%	2.28%	0.60%	-0.27%	0.05%	0.20%	1.37%	2.03%	0.57%	0.48%	1.37%	0.67%	0.61%	0.17%
Population	680.269	688.235	697.754	706.822	716.464	730.617	739.359	737.815	729.467	721.677	723.954	727.800	724.300	724.600	725.300	724.000	725.000
% Change	0.60	1.17%	1.38%	1.27%	1.39%	1.98%	1.20%	-0.24%	-1.10%	-1.07%	0.32%	0.50%	-0.45%	0.04%	0.10%	-0.18%	0.14%
Households	296.977	305.252	307.417	308.944	314.376	320.926	324.652	323.554	320.205	316.318	317.054	318.571	321.923	323.108	322.361	321.691	322.087
% Change	1.40	2.10%	0.71%	0.50%	1.76%	2.08%	1.16%	-0.34%	-1.04%	-0.59%	-0.40%	0.48%	1.05%	0.37%	-0.22%	-0.21%	0.12%
METROPOLITAN AREA*																	
Unemployment																	
Rate	5.80	6.10	8.20	7.80	5.40	4.90	4.50	3.90	3.60	3.30	3.30	5.00	5.30	5.50	5.40	5.30	N.A.
CPI												4.40	4.00	4.20	4.50	4.50	4.50
Source DRI																	

* San Francisco, San Mateo & Marin Counties

NOTES

1. Above Data are for April of Each Year

2. Major Source of Growth is Business Services +22,300 1990 - 1996
   Major Source of Weakness is F.I.R.E. -8,420 1990 -1996

attachment 10

Source : Dick Binns, Pac Bell DRI Data

SAN FRANCISCO COUNTY
Data Resource (029) View

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Total Payroll Employment	492.978	494.052	499.579	522.523	538.392	562.845	571.407	559.712	548.744	561.247
Personal Income	6.112	6.598	7.008	7.691	8.397	9.152	10.446	11.117	11.815	13.158
Wage&Salary Disbursement	6.385	6.782	7.344	8.124	9.056	10.316	11.518	12.420	13.277	14.201
Annual Compensation	12.952	13.727	14.700	15.548	16.820	18.328	20.157	22.190	24.195	25.303

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Total Payroll Employment	564.642	563.106	563.409	564.535	572.258	577.219	576.316	577.653	581.331	586.000
Personal Income	15.304	16.053	16.968	18.151	18.962	20.154	21.140	22.112	23.010	24.139
Wage&Salary Disbursement	15.113	16.053	16.619	17.666	18.645	19.796	20.619	21.587	22.603	23.666
Annual Compensation	26.766	28.508	29.497	31.293	32.581	34.295	35.777	37.370	38.881	40.386

	1995	1996	1997	1998	1999	2000
Total Payroll Employment	590.668	594.604	598.819	603.718	608.898	615.031
Personal Income	25.546	27.128	28.850	30.698	32.690	34.833
Wage&Salary Disbursement	24.917	26.320	27.857	29.563	31.413	33.390
Annual Compensation	42.184	44.265	46.520	48.968	51.590	54.290

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Tax revenues are forecast to grow an average of 5.7% in nominal terms over each of the next 5 years. Table 1 shows the values and increases and Figure 1 plots actual revenues against those predicted by the model.

Table 1

Estimated Revenues

Year	Value ($ 000s)	Percent Increase
1992	73,672	5.9
1993	77,677	5.4
1994	82,033	5.6
1995	86,875	5.9
1996	91,959	5.9

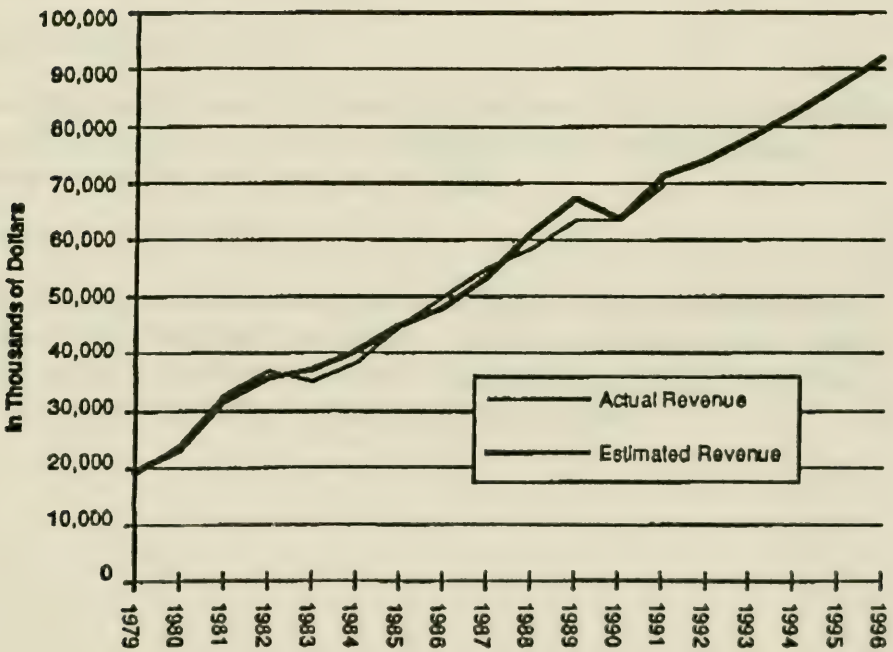


FIGURE1 ACTUAL VS. ESTIMATED HOTEL TAX REVENUES

Policy Implications

After testing alternative models (see Appendix A), it turns out that GNP is the best overall economic variable of the logical options. GNP evidently serves as a reasonable proxy for other key variables that affect hotel room revenues: room supply, occupancy, and price.

Although revenues are very subject to general economic trends, policymakers have 2 options to increase revenue. By raising the tax rate 1 percentage point (from 11% to 12%), the city would see only minor increases in revenue (about $300,000 in 1992) and risk losing business to lower-tax surrounding area)

Another way to increase hotel tax revenue is to increase the base by bringing increasing the number of taxpaying hotels. There is strong anecdotal evidence that the number of small properties acting as, but not licensed as, hotels has increased in the last few years.

Alternative Variables Tested

Two other types of models were tested.

Alternative #1: Adding Room Supply

A room supply variable (average daily room supply) was added to the above equation, adding a supply variable to GNP which would serve as a proxy for demand. This variable tested insignificant, however, even when lagged by 1 and 2 years.

Alternative #1: San Jose Model

The model used by San Jose to estimate tax revenues was tested for the San Francisco case. The San Jose model estimates hotel revenue/room = f (local unemp, CPI, room supply). When this equation was run for San Francisco, R^2 was .91. San Jose had attained an R^2 of .98. The simple model of nominal GNP, rate, and quake appears to be the best fit.

Appendix

Hotel Tax: Historical and Forecast Series

Year		Revenues (nominal)	Tax Rate	Earthquake		Nominal GNP	Room Supply SF (avg.daily)	Unemp
1978-79		0.01901		0.08	0	2249.2		
1980	1	0.02182		0.0800	0	2509.1	20425	5.6
1981	2	0.03256		0.0975	0	2731.4	20600	6.1
1982	3	0.03686		0.0975	0	3050.3	20800	8.2
1983	4	0.03527		0.0975	0	3166	21000	7.8
1984	5	0.03832		0.0978	0	3407	22150	5.4
1985	6	0.04471		0.0975	0	3774.8	23500	4.9
1986	7	0.04798		0.1038	0	4016.8	23500	4.5
1987	8	0.05310		0.1100	0	4231	23850	3.9
1988	9	0.06092		0.1100	0	4514.4	25000	3.6
1989	10	0.06718		0.1100	0	4872.3	26000	3.3
1990	11	0.06341		0.1100	1	5200.7	27600	3.3
1991	12	0.069564		0.1100	0	5466.8	28400	5
1992				0.1100	0	5643.3	28400	5.3
1993				0.1100	0	5971.1	28900	5.5
1994				0.1100	0	6305.8	28900	5.4
1995				0.1100	0	6677.9	28900	5.3
1996				0.1100	0	7068.5	28900	

Regression #2: Augustini revised
(tax rate, earthquake, nominal GNP)

Regression Output:

Constant		-0.0366830367	
Std Err of Y Est		0.0021285112	
R Squared		0.9874093774	
No. of Observations		13	
Degrees of Freedom		9	
	rate	quake	GNP
X Coefficient(s)	0.33320848	-0.0043371084	0.0000130139
Std Err of Coef.	0.13073226	0.0024802323	0.000001401
	2.54878338	-1.7483514213	9.2387958327

Summary:Augustini

Year		Actual Revenue	Estimated Revenue	Absolute Variation	Estimated Increase
1978-79	1	0.01901	0.019244	1.22%	
1980	2	0.021820	0.022627	3.01%	
1981	3	0.032560	0.031331	3.71%	
1982	4	0.036860	0.035504	3.48%	
1983	5	0.035270	0.037007	4.92%	
1984	6	0.038320	0.040143	4.76%	
1985	7	0.044710	0.044926	0.48%	
1986	8	0.047980	0.050142	4.53%	
1987	9	0.053099	0.053032	3.64%	
1988	10	0.060921	0.058722	3.61%	
1989	11	0.067101	0.063360	3.35%	
1990	12	0.063414	0.063414	0.00%	
1991	13	0.069557	0.071114	2.24%	
1992	14		0.073672		3.92%
1993	15		0.077677		5.44%
1994	16		0.082033		5.61%
1995	17		0.086879		5.90%
1996			0.091959		5.85%

HOTEL TAX

Alternative Method

Year		Revenues (nominal)	GNP*rate	Earth quake	Nominal GNP	Tax Rate	Estimated Revenues	Increase
1978-79		0.01901	179.9339	0	2249.2	0.08	0.020758	
1980	1	0.02382	200.7318	0	2509.1	0.0800	0.023280	
1981	2	0.03256	266.3115	0	2731.4	0.0975	0.031232	
1982	3	0.03686	297.4237	0	3050.5	0.0975	0.035004	
1983	4	0.03527	308.685	0	3166	0.0975	0.036369	
1984	5	0.03832	332.1825	0	3407	0.0975	0.039218	
1985	6	0.04471	368.0137	0	3774.5	0.0975	0.043563	
1986	7	0.04798	416.743	0	4016.8	0.1038	0.049471	
1987	8	0.05310	465.41	0	4231	0.1100	0.055372	
1988	9	0.06092	496.584	0	4514.4	0.1100	0.059152	
1989	10	0.06710	535.975	0	4872.5	0.1100	0.063928	
1990	11	0.06341	572.077	1	5200.7	0.1100	0.063414	
1991	12	0.06956	601.348	0	5466.8	0.1100	0.071854	
1992			622.963	0	5663.3	0.1100	0.074475	7.60%
1993			656.821	0	5971.1	0.1100	0.078581	5.51%
1994			693.638	0	6303.8	0.1100	0.083043	5.68%
1995			734.569	0	6677.9	0.1100	0.088007	5.98%
1996			777.535	0	7068.5	0.1100	0.093217	5.92%

Regression Output:

Constant	-0.00105	
Std Err of Y Est	0.001943	
R Squared	0.988341	
No. of Observations	13	
Degrees of Freedom	10	
	GNP*rate	quake
X Coefficient(s)	0.000121	-0.00489
Std Err of Coef.	0.000004	0.002205
t-stat	27.50556	-2.21793

KENNETH BALLARD PG&E 415-973-2102

Sales Tax

Analysis of historical data indicate that an extremely close relationship exists between published taxable sales and city revenues. There is little evidence of accounting, timing or other differences that can often distort the collections pattern.

City revenues are forecast as 1% of the taxable sales reported during each period. The recession is expected to cause a minor fiscal / calendar year timing distortion. The percentage is expected to be higher by 0.007 in 1991-92 fiscal year and lower by the same amount in 1992-93..

Relationship between Taxable Sales and Tax Collections
San Francisco, Millions of Dollars

Fiscal Year	Taxable Sales	City Revenues	Percent
Historical *			
1985 - 86	7,245	70.8	0.990
1986 - 87	7,328	73.4	1.000
1987 - 88	7,740	77.0	0.995
1988 - 89	8,206	83.5	1.018
1989 - 90	8,544	84.5	0.989
1990 - 91	8,891	89.5	1.007
Forecast			
1991 - 92	9,170	90.2	0.993
1992 - 93	9,436	94.3	1.000
1993 - 94	9,723	97.2	1.000
1994 - 95	10,065	100.7	1.000
1995 - 96	10,474	104.7	1.000
1996 - 97	10,918	109.2	1.000
1997 - 98	11,445	114.4	1.000

* *Fiscal year taxable sales data is estimated from the average of the two calendar years.*

The taxable sales data below are provided by PG&E on a calendar year basis and then converted into a fiscal year estimate. *Because the tax base is state-specific, only a few California and no national firms make forecasts of taxable sales. When choosing a forecast of taxable sales, one must be especially careful. To be accurate, it should incorporate a realistic assessment of both the city and locational statewide economic base as well as changes in consumption patterns and state tax laws.*

DICK BRVINS 282-8728

SAN FRANCISCO MOTOR VEHICLE IN-LIEU TAX RECEIPTS

Purpose:
The purpose of this exercise was to develop a model to forecast in-lieu tax receipts for San Francisco. The boundaries were that it should use readily available data for the independent variables and be relatively straightforward.

Method:
A regressive model was developed using AREMOS (Advanced Retrieval and Econometric MOdeling System) for the personal computer. The historical dependent variable and the dollar-based independent variables were normalized to 1982 levels. Several regressions were run using the following variables:

Rate Dummy	Trend	GNP($82)	San Francisco Households
Percent GNP	Ratio, San Francisco to Calif. Population		California Personal Income
San Francisco Population			

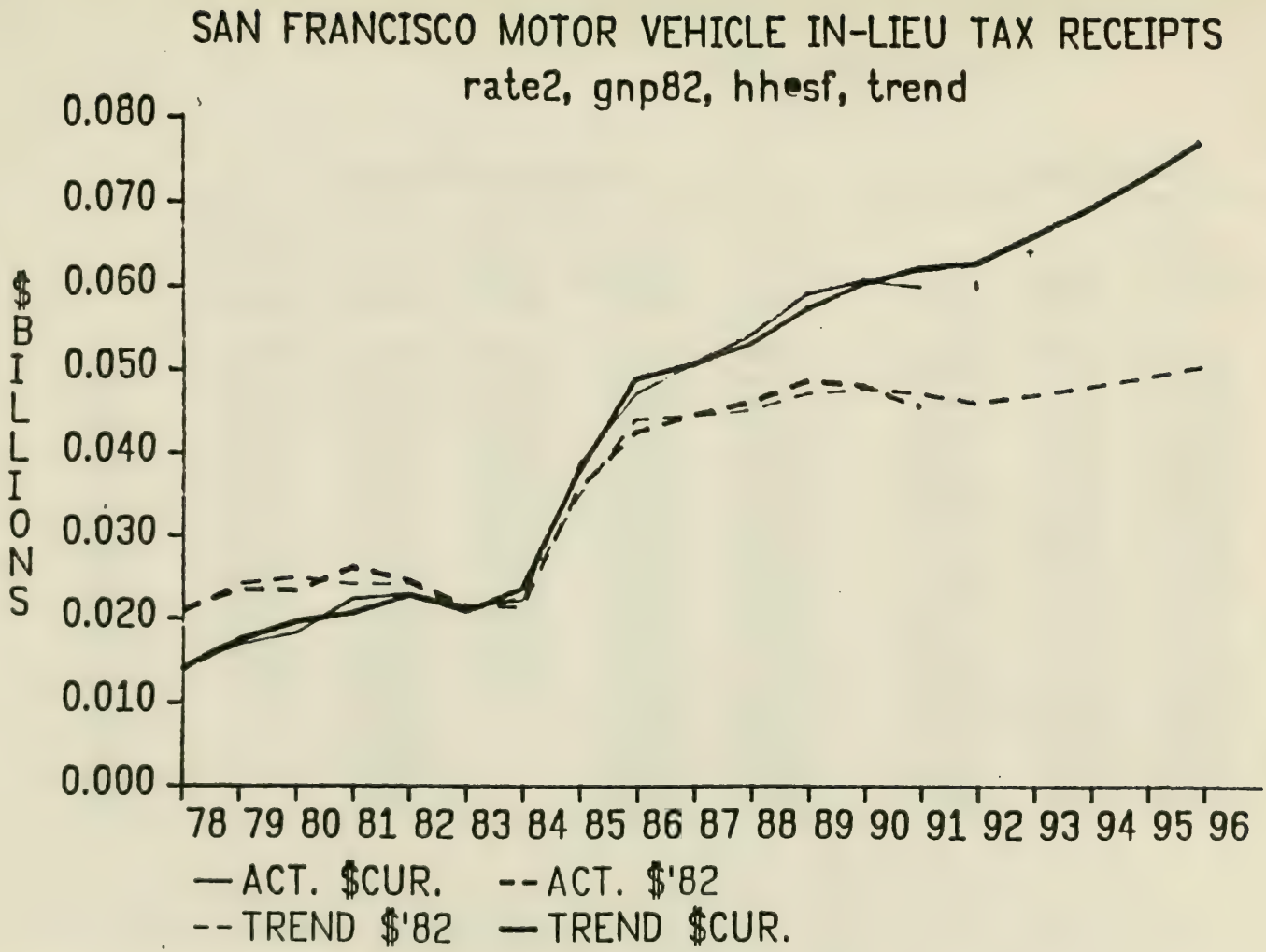
Various lags and combinations of variables were used. A forecast test was done in each case to compare with the model statistics.

Finding:
The regression model recommended contains the rate dummy, trend, GNP($82), and San Francisco households. Although some cross-correlation is evident in the analysis of variance, the largest miss was 7.5%, and the absolute average miss for the last seven years is only 2.2 percent. (See pages 2 and 3.)

Forecast:
The model over forecasted 1991 by 3.6%. If one assumes an error rate based upon depressed auto sales for 1992 and 1993, the trend forecast in current $M might look as follows:

YEAR	MODEL TREND	BUSINESS CYCLE	TREND FORECAST	AUG.1, FEE* ADJUSTMENT
1992	$63.0	- 5.0%	$60.0	$75.0
1993	66.2	- 2.5	64.5	81.0
1994	69.4	0.0	69.4	87.0
1995	73.2	0.0	73.2	92.0
1996	77.3	0.0	77.3	97.0

Adjustment:
An increase in Vehicle License Fees (VLF) effective August 1, 1991, will raise the cumulative tax paid by 36% to 46%, depending upon whether the vehicle is kept or sold. A Bill Analysis dated June 13, 1991, indicated a fiscal 1991-92 effect of $781M, or about 40%. A new analysis, taking the lack of economic recovery into account, will be provided in January, 1992. Until that information becomes available, we would recommend an increase of 25% to be conservative.


SAN FRANCISCO MOTOR VEHICLE IN-LIEU TAX RECEIPTS
rate2, gnp82, hhesf, trend
$BILLIONS
0.080
0.070
0.060
0.050
0.040
0.030
0.020
0.010
0.000
78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96
—ACT. $CUR. --ACT. $'82
--TREND $'82 —TREND $CUR.

SAN FRANCISCO MOTOR VEHICLE IN-LIEU TAX RECEIPTS MODEL VARIABLES

	Dependent Variables & Adjustments					Independent Variables			
	In-Lieu Tax Receipts (Current $)	GNP Deflator	In-Lieu Tax Receipts (1982 $)	In-Lieu Tax Receipts(Sim) (1982 $)	Trend Forecast (Current $)	1985 Rate Change	U.S. GNP (1982 $)	San Francisco Household Forecast	Trend
1978	0.014137	0.673000	0.021006	0.020648	0.013896	0.000000	2.959000	285.251000	1.000000
1979	0.016994	0.722000	0.023537	0.024204	0.017475	0.000000	3.115000	294.765000	2.000000
1980	0.018404	0.786000	0.023415	0.025023	0.019668	0.000000	3.192000	298.977000	3.000000
1981	0.022461	0.857000	0.026209	0.024244	0.020777	0.000000	3.187000	305.252000	4.000000
1982	0.023141	0.940000	0.024618	0.024363	0.022901	0.000000	3.249000	307.417000	5.000000
1983	0.021549	1.000000	0.021549	0.020983	0.020983	0.000000	3.166000	308.944000	6.000000
1984	0.022382	1.039000	0.021542	0.022846	0.023737	0.000000	3.279000	314.376000	7.000000
1985	0.038694	1.079000	0.035861	0.034993	0.037757	0.500000	3.501000	320.926000	8.000000
1986	0.047329	1.109000	0.042677	0.044209	0.049028	1.000000	3.619000	324.652000	9.000000
1987	0.050915	1.138000	0.044741	0.044672	0.050837	1.000000	3.718000	323.554000	10.000000
1988	0.054337	1.174000	0.046284	0.045428	0.053332	1.000000	3.845000	320.205000	11.000000
1989	0.059335	1.213000	0.048916	0.047448	0.057554	1.000000	4.016000	318.318000	12.000000
1990	0.060991	1.263000	0.048291	0.047937	0.060545	1.000000	4.118000	317.054000	13.000000
1991	0.060201	1.315000	0.045780	0.047428	0.062368	1.000000	4.157000	318.571000	14.000000
1992		1.364000		0.046169	0.062974	1.000000	4.152000	321.923000	15.000000
1993		1.402000		0.047190	0.066161	1.000000	4.259000	323.106000	16.000000
1994		1.440000		0.048203	0.069413	1.000000	4.379000	322.381000	17.000000
1995		1.482000		0.049386	0.073191	1.000000	4.506000	321.691000	18.000000
1996		1.527000		0.050654	0.077349	1.000000	4.629000	322.087000	19.000000

AREMOS II / PC Version 1.41D(04:24:91)
Display Reports Banks Tools

	DMVINL	DMVINL.SIM 1	ERR1
1978	0.021006	0.020648	-1.705009
1979	0.023537	0.024204	2.830109
1980	0.023415	0.025023	6.868161
1981	0.026209	0.024244	-7.497431
1982	0.024618	0.024363	-1.037215
1983	0.021549	0.020983	-2.626374
1984	0.021542	0.022846	6.054559
1985	0.035861	0.034993	-2.421206
1986	0.042677	0.044209	3.589485
1987	0.044741	0.044672	-0.153106
1988	0.046284	0.045428	-1.849258
1989	0.048916	0.047448	-3.001874
1990	0.048291	0.047937	-0.731295
1991	0.045780	0.047428	3.600185
1992		0.046169	

Press any key to continue...
Press F1 for Help Mon Dec 9, 1991 1:20:52 PM

AREMOS II / PC Version 1.41D(04:24:91)
Display Reports Banks Tools

	DMVINL	DMVINL.SIM 1	ERR1
1993		0.047190	
1994		0.048203	
1995		0.049386	
1996		0.050654	

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 A R E M O S  II / PC  Version 1.41D(04:24:91)
 Display ——— Reports ——— Banks ——— Tools
DMVINL
Ordinary Least Squares
ANNUAL data for   14 periods from 1978 to 1991
Date:  9 DEC 1991

dmvinl

   =    0.01507 * rate2 + 0.00002 * gnp82 + 0.00016 * hh@sf
       (6.28631)          (3.57214)          (1.83048)

      - 0.00169 * trend - 0.09404
        (2.61448)         (2.23807)

Sum Sq      0.0000   Std Err     0.0014   LHS Mean    0.0339
R Sq        0.9898   R Bar Sq    0.9853   F  4,  9  218.424
D.W.( 1)    2.2578   D.W.( 2)    2.0657

Scroll    Mute      Quit      Continue
 Press F1 for Help ——————————— Mon Dec  9, 1991   1:17:15 PM

 A R E M O S  II / PC  Version 1.41D(04:24:91)
 Display ——— Reports ——— Banks ——— Tools
   =    0.01507 * rate2 + 0.00002 * gnp82 + 0.00016 * hh@sf
       (6.28631)          (3.57214)          (1.83048)

      - 0.00169 * trend - 0.09404
        (2.61448)         (2.23807)

Sum Sq      0.0000   Std Err     0.0014   LHS Mean    0.0339
R Sq        0.9898   R Bar Sq    0.9853   F  4,  9  218.424
D.W.( 1)    2.2578   D.W.( 2)    2.0657

=> PREDICT <VERSION = SIM1> DMVINL;
   SERIES   SFVEH91:DMVINL.SIM1     1978 - 1996
   Number of equations predicted 1

   SERIES ERR1 = (DMVINL.SIM1-DMVINL)/DMVINL*100;
   ANNUAL Data for   14 periods from 1978  to 1991

=> PRINT DMVINL, DMVINL.SIM1, ERR1;
 Press F1 for Help ——————————— Mon Dec  9, 1991   1:20:36 PM
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PARKING TAX

Background

San Francisco's parking tax accounts for about 2.5% of San Francisco's tax revenue. Average annual revenue from 1979-91 was strong, 12.1%, but erratic. After increasing rapidly beginning 1981, revenues levelled off dramatically beginning in 1987 and actually fell slightly the last two years. The levelling of revenues coincided with a rate increase from 15% to 20%. A further increase to 25% is in effect beginning in 1991-92.

Estimating Future Revenues

We would expect that:
Parking Tax revenue (P) = tax rate (t) * total parking revenue (B)
B = f(supply, demand for parking)

The Best Equation

After testing a series of alternatives, the following equation provided the best results.

$$P = -.02602 + .12235\,(r) + ..00020\,(CPI) - .00167\,(Q)$$
$$t = 5.7 \qquad t = 6.9 \qquad t = 1.4$$
$$R^2 = .97$$

- Q represents the 1989 earthquake dummy. The effect of the earthquake is included in historical data for both 1990 and 1991. This is because problems of freeway access to downtown remained significant through 1991.
- CPI is national CPI, which should approximate local CPI and proxy for parking price increases.
- r is the parking tax rate.

5-Year Forecast

The equation was then used to make a 5-year collections forecast. The forecast assumes the rate increase to 25% begins in 1992 and remains constant thereafter, and uses the DRI CPI forecasts. It also assumes that earthquake damage continues to affect freeway traffic patterns over the course of the forecast period. This is represented by a dummy earthquake variable of .5 in each of the forecast years.

Parking tax revenues should see a significant increase in 1991, and only small increases averaging 3 % in each of the remaining years. The increase occurs mainly because of the assumption that access to the city will become easier due to the repair/construction of transportation routes. Table 1 shows the estimated values and increases and Figure 1 plots actual revenues against those predicted by the model.

Table 1

Estimated Revenues

Year	Value ($ 000s)	Percent Increase
1992	31,498	39.1
1993	32,414	2.9
1994	33,473	3.3
1995	34,594	3.3
1996	35,694	3.1

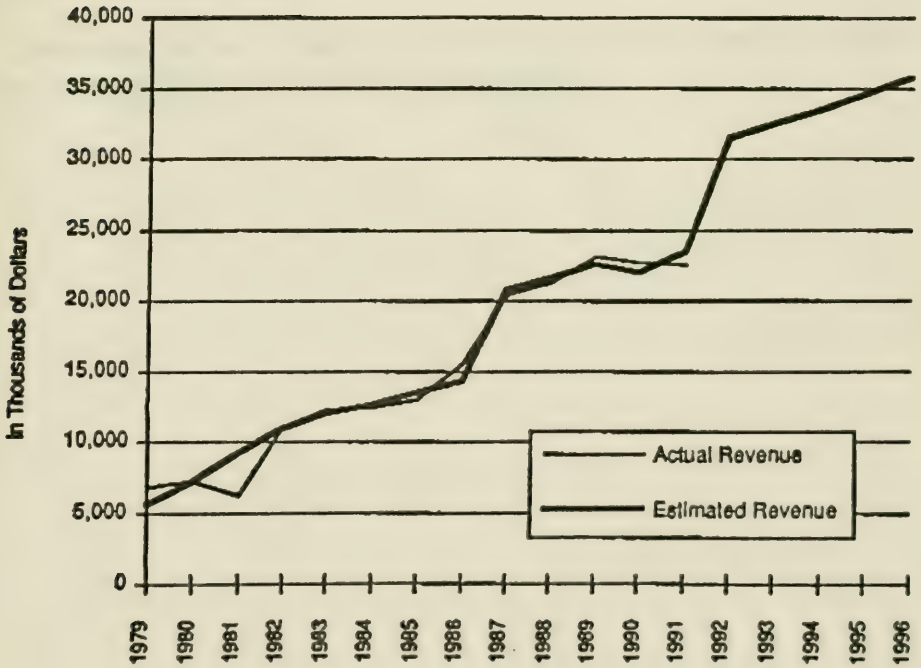

FIGURE 1 ACTUAL VS. ESTIMATED REVENUES

Policy Implications

A hypothesis that complicates this estimate is that parking tax revenues in San Francisco seem to be subject to "threshold behavior." After increasing rapidly through 1987 due to increases in parking demand and supply, tax collections leveled off dramatically, and then fell slightly in the last 2 years. Around 1987, it may be that when parking reached a certain high price level and supply became relatively fixed, demand flattened as people sought substitutes to parking or going to the city.

This behavior is of course difficult to prove or to model. By depressing demand, the appearance of the earthquake in 1989 and its lasting effect actually serves as a proxy for this threshold effect. The lesson for policymakers is that any further increase in the parking tax rates, is unlikely to bring significant revenue. This is borne out by the exceptionally low increases anticipated by in years 1993 through 1996.

Alternative Variables Tested

To reflect demand for parking, beyond the earthquake effect, employment in the city was tested. This variable turned out, however, to be insignificant.

Appendix: Parking Tax
Historical and Forecast Data

Year		Revenue (nominal)	Tax Rate	CPI	Earthquake	SF Employment
1978-79	1	0.006927	0.15	65.2	0	522.525
1980	2	0.007378	0.15	72.6	0	538.392
1981	3	0.006380	0.15	82.4	0	562.849
1982	4	0.011035	0.15	90.9	0	571.487
1983	5	0.012302	0.15	96.3	0	859.718
1984	6	0.012450	0.15	99.6	0	548.744
1985	7	0.013014	0.15	103.9	0	561.247
1986	8	0.013598	0.15	107.7	0	565.478
1987	9	0.020473	0.20	109.7	0	563.802
1988	10	0.021342	0.20	113.7	0	564.133
1989	11	0.023141	0.20	118.4	0	566.536
1990	12	0.022801	0.20	124.0	1	573.312
1991	13	0.022644	0.20	130.7	1	576.416
1992	14		0.25	136.3	0.5	576.029
1993	15		0.25	140.8	0.5	575.733
1994	16		0.25	146.0	0.5	577.336
1995	17		0.25	151.5	0.5	579.307
1996	18		0.25	156.9	0.5	581.795

Regression #3: Revised
(tax rate, SF CPI, earthquake)

Regression Output:

Constant		-0.02601895	43
Std Err of Y Est		0.0012060891	
R Squared		0.9731365689	
No. of Observations		13	
Degrees of Freedom		9	
	rate	CPI	quake
X Coefficient(s)	0.12233236	0.0002116906	-0.001669015
Std Err of Coef.	0.02163033	0.0000294477	0.0011697459
t-stat	5.65651648	6.9170219025	-1.426818679

Summary: Revised Equation

Year		Actual Revenue	Estimated Revenue	Absolute Variation	Estimated Increase
1978-79	1	0.006927	0.005615	18.95%	
1980	2	0.007378	0.007122	3.47%	
1981	3	0.006380	0.009118	42.92%	
1982	4	0.011035	0.010849	1.68%	
1983	5	0.012302	0.011990	2.54%	
1984	6	0.012450	0.012621	1.38%	
1985	7	0.013014	0.013497	3.71%	
1986	8	0.013598	0.014271	4.95%	
1987	9	0.020473	0.020796	1.58%	
1988	10	0.021342	0.021611	1.17%	
1989	11	0.023141	0.022568	2.47%	
1990	12	0.022801	0.022040	3.34%	
1991	13	0.022644	0.023405	3.36%	
1992	14		0.031498		34.58%
1993	15		0.032414		2.91%
1994	16		0.033473		3.27%
1995	17		0.034594		3.35%
1996	18		0.035696		3.18%

Model B

PARKING TAX

Background and Theory

San Francisco's parking tax accounts for about 2.5% of San Francisco's tax revenue. After increasing rapidly since 1980, revenues levelled off dramatically beginning in 1987 and fell slightly the last two years.

We would expect that:

Parking Tax revenue (R) = tax rate (t) * total parking revenue (B)

B = f(supply, demand for parking)

Parking Tax Equation

After testing a series of alternatives, the following equation provided the best results.

$$T = -..0183158 + .024782\,(r) + ..00029501\,(CPI) - .0033023\,(Q)$$
$$t = 3.5 \qquad t = 6.0 \qquad t = 2.5$$

R2=.97

- Q represents the 1989 earthquake dummy. The effect of the earthquake is included in historical data for both 1990 and 1991. This is because problems of freeway access to downtown remained significant through 1991.
- CPI is national CPI, which should approximate local CPI and proxy for parking price increases.
- r is the parking tax rate.

5-Year Forecast

The equation was then used to make a 5-year collections forecast. The forecast assumes a constant tax rate and uses the DRI CPI forecasts. It also assumes that earthquake damage continues to affect freeway traffic patterns over the course of the forecast period. This is represented by a dummy earthquake variable of .5 in each of the forecast years.

Year	Value	Increase

1992	26,527	12.65%
1993	28,061	5.78%
1994	29,683	5.78%
1995	31,277	5.37%
1996	33,047	5.66%

Parking tax revenues should see a significant increase in 1991, and constant increases averaging 5.5% per year for the remaining years. The increase occurs mainly because of the assumption that access to the city will become easier due to the repair/construction of transportation routes. These estimates are less conservative than those estimated by the current Agostini model.

A hypothesis that complicates this estimate is that parking tax revenues in San Francisco are subject to "threshhold behavior." After increasing rapidly through 1987 due to increases in parking demand and supply, tax collections leveled off dramatically, and then fell slightly in the last 2 years. Around 1987, it may be that when parking reached a certain high price and supply levelled, demand flattened as people sought substitutes to parking or going to the city.

This behavior is of course difficult to prove or to model. By depressing demand, the appearance of the earthquake in 1989 and its lasting effect actually serves as a proxy for this threshold effect. The lesson for policymakers is that any further increase in the parking tax rates, is unlikely to bring significant revenue.

Parking Tax (data set)

Year		Revenue (nominal)	Tax Rate	CPI	Earthquake
1980	1	0.007378	0.015	82.4	0
1981	2	0.006380	0.015	90.9	0
1982	3	0.011035	0.015	96.5	0
1983	4	0.012302	0.015	99.6	0
1984	5	0.012450	0.015	103.9	0
1985	6	0.013014	0.015	107.7	0
1986	7	0.015598	0.015	109.7	0
1987	8	0.020473	0.200	113.7	0
1988	9	0.021362	0.200	118.4	0
1989	10	0.023141	0.200	124.0	0
1990	11	0.022801	0.200	130.7	1
1991	12	0.022644	0.200	136.3	1
1992	13		0.200	140.8	0.5
1993	14		0.200	146.0	0.5
1994	15		0.200	151.5	0.5
1995	16		0.200	156.9	0.5
1996	17		0.200	162.9	0.5

Regression #1: Time Series

Regression Output:

Constant	0.00497824
Std Err of Y Est	0.00160946
R Squared	0.93774092
No. of Observations	12
Degrees of Freedom	10
X Coefficient(s)	0.001651
Std Err of Coef.	0.000134

Summary:Time Series

Year		Actual Revenue	Estimate Revenue	Variation	Estimated Increase	
1980	1	0.007378	0.006629	10.15%		
1981	2	0.006380	0.008280	29.78%		
1982	3	0.011035	0.009931	10.00%		
1983	4	0.012302	0.011582	5.85%		
1984	5	0.012450	0.013233	6.29%		
1985	6	0.013014	0.014884	14.37%		
1986	7	0.015598	0.016535	6.01%		
1987	8	0.020473	0.018186	11.17%		
1988	9	0.021362	0.019837	7.14%		
1989	10	0.023141	0.021488	7.14%		
1990	11	0.022801	0.023139	1.48%		
1991	12	0.022644	0.024790	9.48%		7.14%
1992	13		0.026441			6.66%
1993	14		0.028092			6.24%
1994	15		0.029743			5.88%
1995	16		0.031394			5.55%
1996	17		0.033045			5.26%

Vanlig tax

Regression #2: Agostini
(tax rate, CPI)

Regression Output:		
Constant	-0.0118658	
Std Err of Y Est	0.00154090	
R Squared	0.94863914	
No. of Observations	12	
Degrees of Freedom	9	
X Coefficient(s)	0.026854	0.00022933
Std Err of Coef.	0.008723	0.00005156
t stat	3.078420	4.44727500

Summary: Agostini

Year		Actual Revenue	Estimated Revenue	Absolute Variation	Estimated Increase
1980	1	0.007378	0.007434	0.76%	
1981	2	0.006380	0.009383	47.07%	
1982	3	0.011035	0.010667	3.33%	
1983	4	0.012302	0.011378	7.51%	
1984	5	0.012450	0.012364	0.69%	
1985	6	0.013014	0.013236	1.70%	
1986	7	0.015598	0.013695	12.20%	
1987	8	0.020473	0.019580	4.36%	
1988	9	0.021362	0.020658	3.30%	
1989	10	0.023141	0.021942	5.18%	
1990	11	0.022801	0.023478	2.97%	
1991	12	0.022644	0.024763	9.36%	5.47%
1992	13		0.025795		4.17%
1993	14		0.026987		4.62%
1994	15		0.028248		4.67%
1995	16		0.029487		4.38%
1996	17		0.030863		4.67%

for fresno

Regression #3: Revised
(tax rate, SF CPI, earthquake)

Regression Output:

Constant	-0.0183158		
Std Err of Y Est	0.00123161		
R Squared	0.97083395		
No. of Observations	12		
Degrees of Freedom	8		
	rate	SFCPI	quake
X Coefficient(s)	0.024782	0.00029501	-0.0033023
Std Err of Coef.	0.007022	0.00004906	0.00133842
t stat	3.528716	6.01263285	-2.4673567

Summary: Revised Equation

Year		Actual Revenue	Estimated Revenue	Absolute Variation	Estimated Increase
1980	1	0.007378	0.006365	13.73%	
1981	2	0.006380	0.008872	39.06%	
1982	3	0.011035	0.010524	4.63%	
1983	4	0.012302	0.011439	7.02%	
1984	5	0.012450	0.012707	2.07%	
1985	6	0.013014	0.013829	6.26%	
1986	7	0.015598	0.014419	7.56%	
1987	8	0.020473	0.020183	1.42%	
1988	9	0.021362	0.021570	0.97%	
1989	10	0.023141	0.023222	0.35%	
1990	11	0.022801	0.021896	3.97%	
1991	12	0.022644	0.023548	3.99%	7.54%
1992	13		0.026527		12.65%
1993	14		0.028061		5.78%
1994	15		0.029683		5.78%
1995	16		0.031277		5.37%
1996	17		0.033047		5.66%

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TRAFFIC FINES

Background

Traffic fines account for about 4.2% of total city revenue, and grew an average of 6.8% per year from 1981-1991. Revenues have levelled in the last few years despite more effort (i.e., more traffic officers) on the part of the city. Traffic fines were not included in the city's previous revenue model.

Estimating Future Revenue

Initially, traffic fine revenues were thought likely to be a function of the number of enforcement officers, the the average fine value, the fine dismissal rate in the court system, and activity in the city (employment or population).

Traffic fine revenue = a+ b (avg. fine value) + c (officers) + d (dismissal rate) + e (SF empl)

The Best Equation

The best estimates, however, came from an equation with only 2 statistically significant variables.

$F = .00212 - .00006$ (officers) $+ .00357$ (fine value)

$t = 1.2$ $t = 4.4$

$R^2 = .87$

- Officers is the number of full-time PCO's. Data from Mayor's office.
- Fine value is the average fine value, computed by dividing total traffic fine revenue by the number of citations.

Note that the coefficient on traffic officers is negative, indicating that an increase in the number of officers is associated with a decrease in traffic fine revenue.

5-Year Forecast

The equation was used to make a 5-year revenue forecast. The number of traffic officers was assumed to remain constant (at 316) and average fine value was assumed to increase by the 1980-1991 average. With these assumptions, traffic fine revenues are forecast to grow an aver-

age of 9.8% in each of the 5 years. Table 1 shows the values and increases and Figure 1 plots actual revenues against those predicted by the model.

Table 1

Estimated Revenues

Year	Value ($ 000s)	Percent Increase
1992	42,901	11.7
1993	47,040	9.6
1994	51,468	9.4
1995	56,208	9.2
1996	61,280	9.0

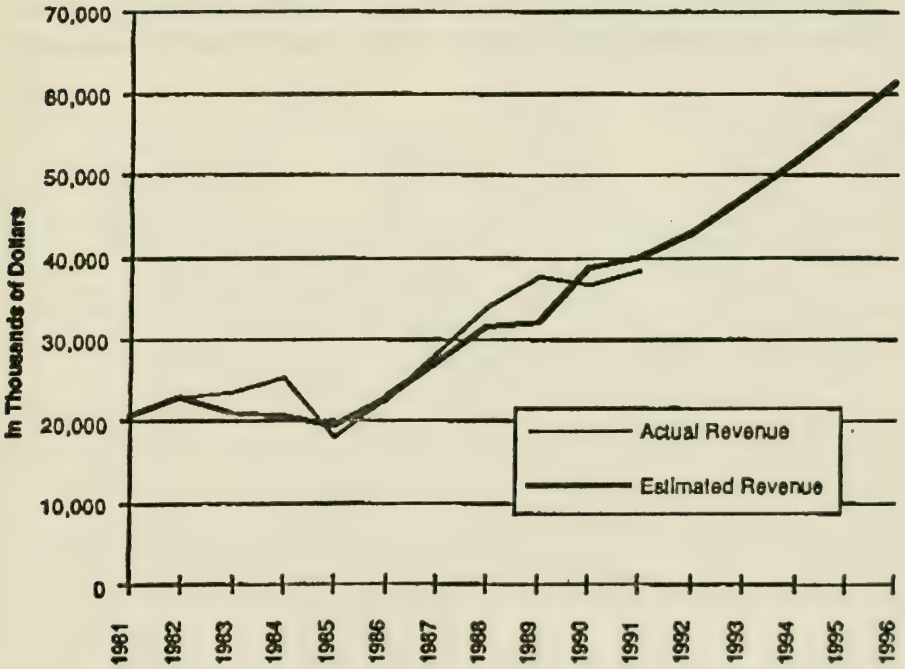


FIGURE 1 ACTUAL VS. ESTIMATED REVENUES

Policy Implications

There are problems with using this model as a rational predictor of revenue. The main problem is that the 2 independent variables, officers and fine value, appear to be strongly related to each other. Average fine value was derived by dividing number of citations into tax revenue. Number of citations appears to have a negative correlation with the number of traffic officers; an increase in officers in the last few years has coincided with the decrease in fine revenues.

If this model is to be used, a more reasonable assumption is that the average fine value will remain constant over the forecast period. As officers were added (from 233 to 301), the number of citations awarded decreased 20%. So as officers remain constant, is is more likely that citations and thus award value would remain constant. Better yet, perhaps an independent rather than derived measure of average fine value can be secured from fine schedules.

The key policy implication from this exercise is that more traffic officers should be added only if the objective of adding them is more orderly traffic behavior for safety or social reasons. If the objective is greater traffic fine revenue, more officers appears counterproductive.

Appendix: Traffic Fines

Historical and Forecast Series

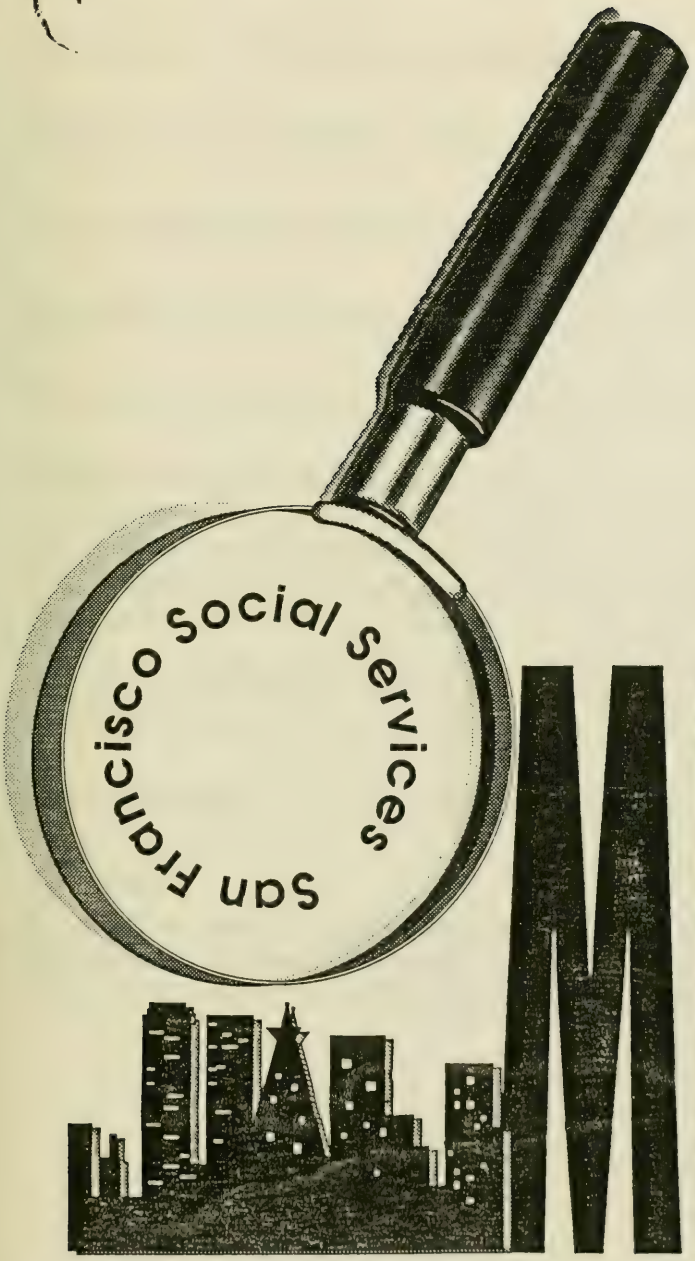
Fiscal Year		Revenues	Discount Rate	Traffic Officers	Avg. Fine Value	% change fine value	SF Employment	Number Citations
1980-81	1	0.020877		193	8.31		562.843	
1982	2	0.022876	0.242	193	8.89		571.407	0.002572943
1983	3	0.020765	0.420	193	9.13	2.71%	539.712	0.002273889
1984	4	0.020657	0.314	174	9.33	2.14%	548.744	0.00221469
1985	5	0.019457	0.248	174	7.28	-21.94%	561.247	0.002472317
1986	6	0.022689	0.244	164	8.42	15.67%	565.478	0.002694114
1987	7	0.028330	0.203	179	9.87	17.22%	563.802	0.002869793
1988	8	0.033933	0.300	179	11.13	12.70%	564.135	0.003050309
1989	9	0.037618	0.332	203	12.11	8.82%	564.536	0.003104873
1990	10	0.036550	0.273	254	13.99	15.52%	573.312	0.003611995
1991	11	0.038423	0.230	201	15.44	10.30%	576.416	0.002489342
1992	12			246	14.52	7.02%	576.029	
1993	13			216	17.48	7.02%	575.725	
1994	14			216	18.92	7.02%	577.336	
1995	15			216	20.25	7.02%	579.387	
1996	16			216	21.67	7.02%	581.795	

Regression Output:

Constant		0.0021198203
Std Err of Y Est		0.0031289512
R Squared		0.8674298248
No. of Observations		11
Degrees of Freedom		8
	officers	fine value
X Coefficient(s)	-0.0000575	0.0035687392
Std Err of Coef.	0.00003150	0.0008102754
	-1.1178473	4.40433368

Estimated Revenue

Year		Actual Revenues	Estimated Revenues	Absolute Variation	Estimated Increase
1981	1	0.020877	0.02047854 31	0.95%	
1982	2	0.022876	0.0227521037	0.54%	
1983	3	0.020765	0.0256173132	13.71%	
1984	4	0.020657	0.0254006444	22.97%	
1985	5	0.019457	0.0180984377	4.98%	
1986	6	0.022689	0.0227442872	0.24%	
1987	7	0.028330	0.0270571396	4.49%	
1988	8	0.033933	0.0315297737	7.09%	
1989	9	0.037618	0.0319517322	15.02%	
1990	10	0.036550	0.0386034343	5.62%	
1991	11	0.038423	0.0390958188	1.83%	
1992	12		0.0429012028		11.64%
1993	13		0.0470395898		9.65%
1994	14		0.0514484916		9.42%
1995	15		0.0562083034		9.21%
1996	16		0 0612808478		9.02%



MFAC

March 30, 1992

Contents

Summary of Recommendations 2

Social Services Dept. Trends 4

Social Services Department Overview 6

General Assistance 8

Recommendations 11

Peer Survey Analysis 16

Survey Methodology 16
Workload by Type of Assistance Provided 17
G. A. Eligibility Requirements 19
Fraud and Error Control 21
Staffing 23
Expenditures and Funding Sources 29
Efficiency Measures 31

Methodology 36

Appendix

Appendix A- Peer County Survey Results
Appendix B - Department Trends
Appendix C - MFAC Social Services Report Team

Summary of Recommendations

Recommendation	Result
1. Expand number of caseworkers	• Increasing caseworkers creates lower caseload per worker, with more time available to monitor verification measures, prevent fraud, and implement quality control systems. • Lower caseloads permit increased verification measures. • Increased verification results in less fraud and higher discontinuances.
2. Merge GA and Food Stamp Programs	• 5% or $1 million in net annual savings could be realized. • Merger of the two programs will increase revenues without additional workers. • Reduced caseloads lower average aid payments. • Elimination of duplication will create more efficiency.
3. Invest in automation	• Automation will increase caseworker and support staff productivity. • Increased productivity reduces need for additional staff. • Further study is necessary to determine appropriate systems.
4. Expand Workfare and GATES program	• GATES is the General Assistance Training and Employment System • Critical for long-term improvement of each indigent, providing training and skills that can be used to reach self-sufficiency. • Workfare provides a social service to the City in exchange for receiving aid.

Recommendation	Result
5. **Streamline SSI Certification Process**	• **An individual that moves to SSI goes off the GA roles.** • **Close coordination with the City Health system for medical documentation will speed up the SSI application process.**
6. **Standardize GA Policies Statewide**	• **To the extent that all Counties have the same eligibility requirements and same payment amounts, the magnet effect of one county over another would be eliminated.**
	The overall goals of the above recommendations are to : **1. Slow the down the growth of GA caseload.** **2. Reduce the cost per GA case.** The recommendations do not necessarily reduce costs or generate revenues overnight. More personnel, more training (i.e., GATES) and automation all cost money and the benefits derived are hard to quantify and forecast. Assisting the indigent in San Francisco to improve their lives is a long-term challenge which requires long-term solutions.

Social Services Dept. Trends

Summary of Major Trends

The increase in demand for California social service programs has been driven by a number of social factors, including:

- **A breakdown in the structure of the American family and changing workforce requirements.**

- **A growing number of California families are single-parent households, and a majority of these are headed by women.**

  Even among married couples, it is becoming increasingly difficult to maintain family self-sufficiency, as higher paying manufacturing jobs continue to be replaced by lower paying service sector jobs in the California economy. Despite the economic growth and prosperity that California has experienced over the past decade, these social factors will keep a growing number of Californians below the poverty line.

State Trends

- **California's population growth has also contributed greatly to the increase in demand for social services.**

  California added nearly six million residents over the last ten years. In addition, the fastest growing groups within California have been those who are most affected by poverty: single mothers, racial and ethnic minorities, the elderly and children. Population growth is expected to continue throughout the decade, with an additional 5.3 million Californians projected by the year 2000. Once again, the fastest growing segments of the population will be among California's least self-sufficient groups.

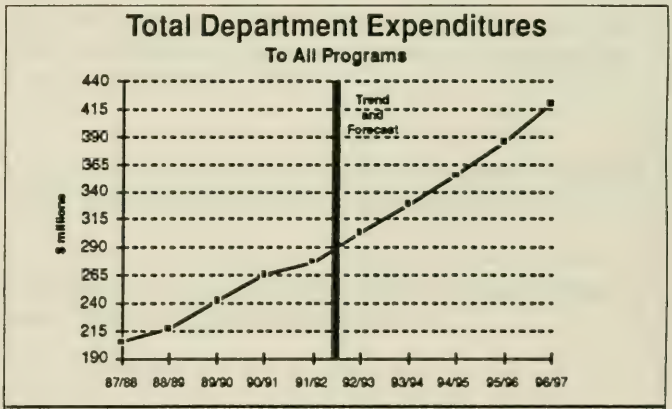
- **Demand for social services have been markedly increasing while available funds from state and federal sources have not.**

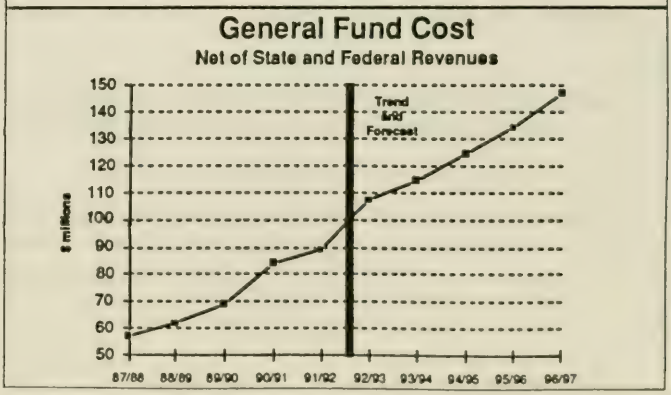
  This pattern is likely to continue as the State and Federal governments grapple with both budget deficits and slowing revenue growth. Much of the outlook for funding is dependent on the current state budget and initiatives that have been proposed for the coming year. This administration's budget and initiatives will likely shape the ability of California's counties to meet the growing demand in social services in the short term.

San Francisco Trends

With San Francisco, the demand for social services continues to climb. The City ranks first in total caseload of the six counties we surveyed. The reasons include:

- **Demographics: SF isn't a family town. Of the total population of 723,959, only 116,883 (16%) are children. This compares with 22-31% in the peer counties. Adults over age 65 make up 14.5% of San Francisco's population, compared to 8.7-12.6% in the peer counties.**
- **Housing: Cities with SROs (i.e., affordable housing for this population) attract welfare clients.**
- **Single, isolated elderly population: Many of the elderly people who live here don't have family here. As they become dependent, they have to rely on social services systems.**





Social Services Department Overview

Program Descriptions

Adult Services	Administration of IHSS services, other special payments to adults, and adult protective services.
AFDC	Aid to Families with Dependent Children provides cash, Food stamp, and Medi-Cal benefits to single, disabled or unemployed parents of minor children.
Children's Services	Provision of services through Emergency Response, Family Maintenance, Family Reunification and Permanent Placement; adoptions and foster family licensing.
Food Stamps	Administration of entitlement food stamp benefits to eligible GA recipients and other non-AFDC families and individuals.
Foster Care	Administration and aid payments for children placed in foster family homes or in group home institutions.
Homeless Programs	Services and shelter to homeless adults, children, and families.
Other Programs	Medi-Cal administration, employment, and training programs (GIN AND FSET), IHSS payments and refugee programs.
General Assistance	State mandated local program to provide cash and/or in-kind benefits to indigent adults not otherwise eligible for federal/state entitlement assistance.

Social Services Funding Sources
91/92 Budget

	SF General Fund (millions)	Total Expenditures (millions)	Funding Sources
Adult Services	$1.5	$5.3	50% Federal and State
AFDC	0.8	105.8	85% Federal and State
Children's Services	7.2	25.3	50% Federal and State
Food Stamps	0.4	7.6	75% Federal and State
Foster Care	16.6	46.1	90% Federal and State
Homeless Programs	9.0	9.0	100% Local
Other Programs *	0.5	25.1	80% Federal and State
General Assistance	52.8	52.8	100% Local
Total	$88.8	$276.9	

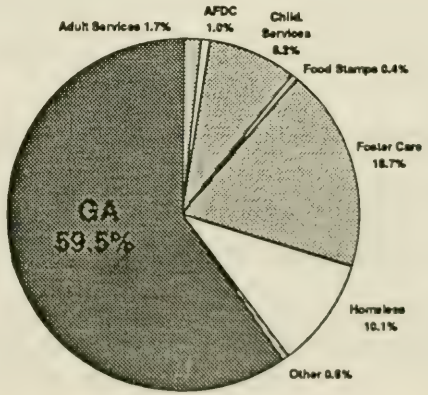
* Includes Medi-Cal Administration, Employment Programs, IHSS Contracts, Refugee Services, and Miscellaneous Other Programs

The G.A. Focus

General Assistance, as shown on the table above, is 100% locally funded. The program represents 59.5% of funding from the general fund.

This fact, plus the extraordinary rise in caseload in this area, make it evident that this is the area where the most effort should be placed.

% of Funding from General Fund



Total $88.8 million

General Assistance

General Assistance is mandated by California state law without either funding or regulation. It is designed to provide short-term financial aid to indigent persons. In San Francisco, the GA program has had the following characteristics:

- **Program growth over the past decade has been 300%.**
- **Over the past year, the G.A. caseload has increased from 11,039 people paid aid in October 1990 to 14,000 in October 1991 (+27%). This represents a growth of 250 case per month.**
- **In 1990, 46,000 different people received G. A. benefits.**

Reasons for Caseload Growth

- Current recession
- Cut backs in State Programs
- Cut backs in Federal Programs
- The City's House the Homeless efforts beginning in 1982
- Changes in residence requirements
- Relaxation of ID requirements
- The 1989 earthquake
- Court Cases

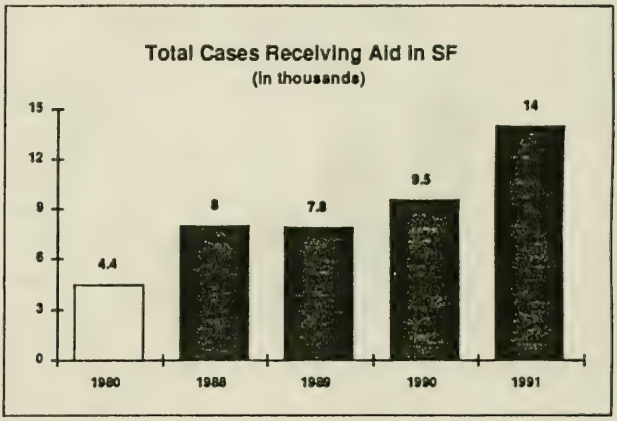
Managing Caseload

- The size of the worker's caseload (306) is unmanageable.
- The ratio of eligibility case workers to clients (1:412) is substantially higher than that of other counties. It is 29% higher than San Diego and 202% hgiher than Los Angeles.
- The sheer size of the caseload forces staff to take shortcuts, often resulting in errors that keep ineligibles active and produces incorrect grant amounts.

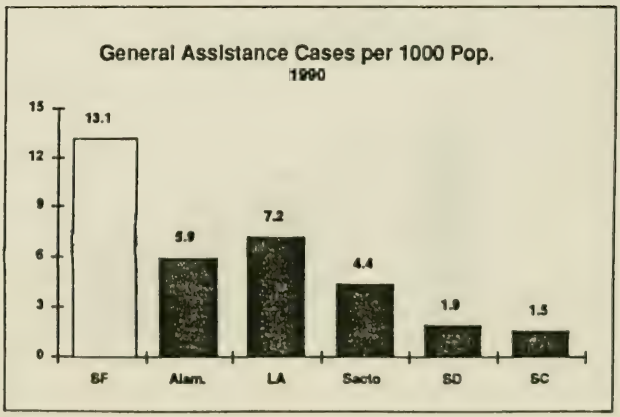
General Assistance Issues

- General Assistance is mandated by the State at the County level.
- 100% local funding.
- Least regulated aid program - no Federal or State Regulations.
- Historically, procedures and aid payments defined by judicial fiat.
- Advocacy groups in SF are very strong and well-organized.
- Substantive programmatic changes face potential legal challenge.

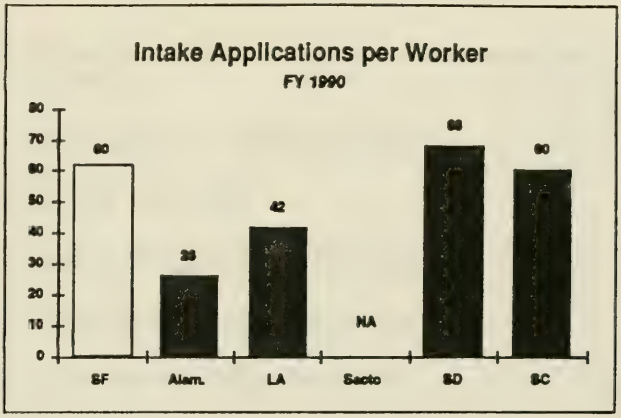
- G.A. cases have grown dramatically in the past 30 months in S. F.

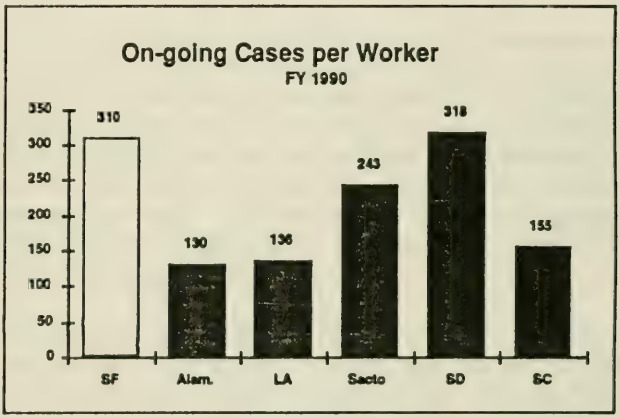


- San Francisco's G.A. population per capita is higher than peer counties.



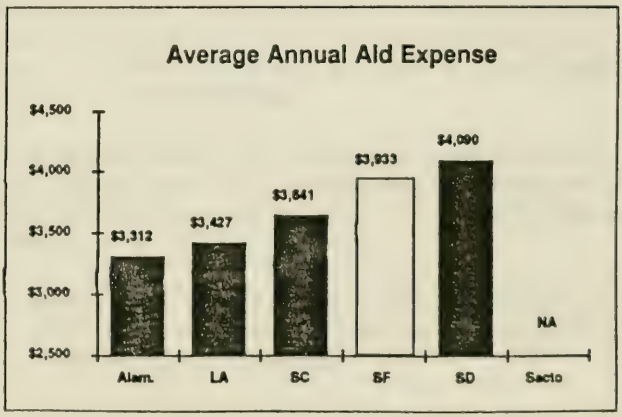
- **San Francisco's G.A. caseload is unbalanced relative to peer counties.**





- **Higher caseloads translate into higher average aid cost.**

Ranking by Caseload
1. San Diego
2. San Francisco
3. Santa Clara
4. Los Angeles
5. Alameda



GA Program Recommendations

1. **Expand number of caseworkers to lower average aid payment.**
2. **Merge GA and Food Stamp Programs.**
3. **Invest in automation.**
4. **Expand Workfare and GATES Programs.**
5. **Streamline SSI Certification Process.**
6. **Standardize GA Policies Statewide.**

1. Expand number of caseworkers

In the beginning and middle of the month, the GA office processes 1,400 cases per day. The average number of cases per caseworker is 310, which is 30-100% higher than other counties we surveyed with the exception of San Diego. Abuses of the system arise from not being able to process or monitor clients. More importantly and the reason for the Program in the first place, caseworkers do not have the time to help the GA recipient. In the recent Supplemental Request, 93 new eligibility workers, including four units (7/unit) in GA, have been requested.

Timing is also a factor when it comes to staffing. Proposition A which provides for early retirement will mean that those positions that are not replaced by March 31 will be gone. State and Federal revenues are determined in some part by a head count of line workers (this done every quarter). If hires are not made, it will mean a payment loss of revenue and put more burden on the County. Replacements also have to be made in a timely manner to provide for necessary training.

With the fiscal austerity that the City is facing, additional staff could only be approved if it was cost beneficial. Additional GA staff would reduce caseload per worker and provide the following benefits:

1) Fraud Control - provide time to check if the individual misrepresents that he is eligible for GA (i.e. has an unreported job) or on the GA rolls more than once.

2) Verification Measures - provide time to see if the GA recipient is following the requirements of the Program (i.e., going for job interviews or in the case of a substance abuser, going to substance abuse counseling). In the past, there has been a significant caseload decline when there was an increased emphasis upon verification of eligibility.

3) Assistant with SSI Applications - provide time to certify individuals for SSI. Qualifying GA clients for SSI eliminates City participation in their aid payments and reduces the City's administration and overhead costs.

4) Quality Control - provide additional staff to review caseworker performance (are they taking the right actions, making the right calculations, etc.).

5) Recertification Measures - provide time to do the evaluation of continued eligibility for GA every 6 months as required by City ordinance. Large caseloads result in a backlog of cases needing recertification.

6) Better Job Performance - the caseworker can have the time to focus more on each case, how to get the right help and service for each client and give them more personalized direction.

NOTE: It is important to bear in mind that 70% of the costs of the Social Services Department are borne by State and Federal dollars so that adding or subtracting personnel will only affect 30% of the total costs. However, since GA is all funded locally, a 100% of the savings would go directly to the City.

2.
Merge of Food Stamp Program with GA Program.

The benefits include:

1) Reduction in the number of cases.

2) A client could see one caseworker instead of two (two-thirds of GA clients currently have a separate F.S. caseworker). The eligibility requirements of FS and GA are fairly compatible.

3) As Food Stamps is a Federal Program, could get Federal dollars to pay more administrative costs (on a pro rata basis).

4) Tap into the IEVS Program. The Income Eligibility Verification System matches with Social Security, the IRS, and Unemployment and Disability Insurance to screen whether the user is earning income which would preclude him from the Food Stamps Program. Because it is a Federal program, the IEVS information is not available to the County.

If Food Stamps and GA were combined, it would allow the County a way to check for fraud in the GA Program by tapping into the IEVS information bank. It could discern whether someone was earning income that would make them ineligible for GA payments. By streamlining the program and avoiding case management duplications, the Department believes that at least 5% or $1 million in savings could be realized.

3. Invest in Automation

Much of the work in the GA office needs to be automated. Although it could begin in the near future, automating and installing new systems will take time to get up and running. The following areas are the most likely candidates for automation:

1) GA Intake Process - San Diego has an automated intake system already in place that is compatible with San Francisco. The City could purchase a proven program and reduce mistakes in the near term.

2) Check Generation - although all GA checks are issued by a central computer in City Hall, emergency checks or checks that get lost are generated by hand (up to 2,000 every two weeks).

3) Payroll Timesheets - records kept of personnel timesheets are all done internally by hand.

4) Fiscal Reconciliation - ledgers, reconciling checks cashed, employees expenses, etc. are presently on a manual basis.

5) Cash budgeting - an automated case budgeting system that budgets grants and calculates benefits is being worked on by a consortium of counties, including SF. Completion is not expected until June '93.

6) Fraud control - no mechanism in place today to determine whether a client is on another County's GA rolls as well.

7) Case files - all inactive cases presently kept in the basement and the document retrievals process has been a major headache. Computerizing all cases could reduce error, filling costs and manpower needs.

8) Cost savings - expanded automation could also lead to a reduction in personnel, claims investigations and possibly accounting.

As a general comment, the needs for automation in GA is indicative of the kinds of needs for automation within the Department as a whole.

4. Expand Workfare and GATES Programs

Although there are costs associated with the Workfare Program (i.e., $400,000 for 400 slots at DPW), it has long-term payoffs. There are some 56 additional slots working with CBO's and DSS. Each slot represents potentially 3 individual per week since clients are assigned to Workfare for 2 days, and Workfare operates 6 days per week. In FY 90-91 the 456 available slots equated to 6,110 who participated in Workfare.

There have been no empirical studies that test the effectiveness of Workfare in assisting GA clients gain employment. However, it is clear that providing jobs builds an individual' self-esteem and begins the process by which he/she can develop marketable skills and become self-reliant. In order to make the Workfare Program a success, the City should work with other organizations within the community (particularly labor) to get their support.

A Workfare Program is a good start toward a broader employment training program. One area that should be expanded is the General Assistance Training and Employment System Program. If an individual spends 90 days on the Workfare Program, they can become eligible for GATES. In FY 92-93, based on the current budget, the GATES program is expected to serve approximately 500 GA and Food stamp clients. Historically at least 50% of all clients served will obtain employment as a result of GATES. This program should be expanded to provide apprenticeship programs that teach an individual a more lasting skill or trade.

5. Streamline SSI Certification Process.

To the extent a client can be certified as long-term disabled, he/she could be eligible for Supplemental Security Income. If an individual is on SSI (a Federal program), they then go off the GA rolls. However, it takes approximately one year from the time a client applies to SSI before he/she is admitted. This is due to lengthy times between doctor and psychiatric evaluations and denials and appeals to the Disability Evaluation Division. Close coordination with the City health system to get better medical documentation to speed up the application process and more doctors to review cases would help. However if SS is not streamlined on the other end, the process breaks down. The obvious problem is that SSI is in no hurry to add to their case files.

6. Standardize GA Policies.

To the extent all Counties have the same eligibility requirements and same payment amounts, the "magnet effect" of one county over another would be eliminated. This proposal comes up in the legislature every three or four years, but dies because of cost. If the State changes the law to make all counties provide equal payments, it would have to pay the difference to those counties which had lower payments than the new level. This additional cost could result in $100 million or more to the State. San Francisco however appears to be paying the price for other counties' actions and should take a leading role in getting some legislative relief.

Peer Survey Analysis

Survey Methodology

The Peer County Survey was designed by the MFAC Social Services Team and sent to the following county social services departments:

- **San Francisco**
- **Alameda**
- **Los Angeles**
- **Sacramento**
- **San Diego**
- **Santa Clara**

Topics covered in the survey questionaire included the following:

- **Survey Methodology**
- **Survey Summary**
- **Workload by Type of Assistance Provided**
- **Eligibility Requirements**
- **Fraud and Error Control**
- **Staffing**
- **Expenditures and Funding Sources**
- **Efficiency Measures**

The following pages summarize survey findings by topic. Fully consolidated survey results can be found in Appendix A.

Workload by Type of Assistance Provided

Adult Programs

- San Francisco ranks 1st in total caseload as a percentage of population. The total caseload is 7.86% of the population. The range is 4.93% to 7.86%. The mean is 6.4%.

Caseload as a Percentage of Population

- SF ranks highest in terms of caseload as a percentage of population for every adult program with the exception of Medi-Cal. In Medi-Cal, SF is a close 2nd. Generally SF caseload is considerably higher than the mean, even in the case of Medi-Cal.

Demographics

- SF isn't a family town. Of the total population of 724,000, only 117,000 (16%) are children. This compares with 22-31% in the peer counties. Adults over age 65 make up 14.5% of San Francisco's population, compared to 8.7 - 12.6% in the peer counties.

Housing

- Cities with SRO's (i.e., affordable housing for this populations) attract welfare clients.

Single, Isolated Elderly Population

- Many of the elderly people who live here don't have family in the area. As they become dependent; they have to rely on social services systems.

Caseload Growth

- All counties experienced caseload growth in at least some of their programs. SF had growth in all of its programs except food stamps. (SF Food Stamp caseload was essentially flat form 87 - 90. However, in the past 18 months it has grown by 32%.
- SF's growth was well below the mean growth rate.
- But even as SF's caseload in GA, Food Stamps, and Medi-Cal grow at even higher rates than between 87-88 and 89-90, the peer counties' growth rate have in most cases exceeded SF's.

Family Programs	• SF still ranks 5th in AFDC caseload, a reflection of demographics. • SF ranks 2nd in refugee families . LA and San Diego counties have much larger caseload, but they are a smaller percentage of the population. Only Santa Clara is higher than SF.
Child Welfare/Foster Care	• SF ranks 3rd in Child Welfare Services caseload as a percentage of the population, but lowest in terms of absolute caseload numbers (Caseload range : 3,896 - 46,220). • Peer counties experienced growth in Child Welfare Services caseload between 1987 - 88 and 1989 -90. In a range of .1% (LA) to 60.7% (Sacramento). SF's rate of growth was 24.4%. • SF ranks 1st in children in foster care has a percentage of population, but 5th in therm of absolute caseload numbers.
Foster Care Caseloads	• Peer counties experienced growth in Foster Care caseloads between 1987 and 1989-90 in a range of 22% to 37.6%. Some considerations: — The crack epidemic was a major factor. Now that it has subsided, the SF caseload has somewhat stabilized. — Both DSS and the Juvenile Probation Dept. place children in foster care. These caseload numbers reflect both populations. Similar to the crack epidemic of DSS placements, Probation numbers are also affected by crack/gang activities. — Increase in Juvenile Probation foster care placements reflect diverting juveniles from detention.

G. A. Eligibility Requirements

Proof of Identification	All of the counties surveyed require applicants to provide proof of identification when applying for GA • **LA is the only county to require finger-printing of applicants.** • **About half of the counties surveyed (excluding SF) said that collateral contacts were made to verify identification.** • **Only Alameda makes home visits to verify identification.** Note: Based upon a California superior court settlement agreement (Neville vs. Randolph - 7/88), no applicant shall be denied aid if lack of identification is due to circumstances beyond the applicant's control. If the client lacks ID, the worker must ensure steps are taken to secure it.
Maximum Monthly Income	Most counties allow persons to earn a net income equal to the maximum cash grant per individual under GA and still receive GA benefits. San Francisco allows its clients to earn within $5 of the maximum cash grant.
Income Verification	San Francisco requires its GA clients to submit monthly income reports with income verification if income is earned. All six counties use a variety of sources to verify client income e.g., pay stubs, employer statements, UIB printouts, etc.
Residency Requirements	None of the responding counties require GA applicants to have a fixed address or to have resided in the county for a minimum period of time (a 1987 Court Case, Nelson vs. San Diego Board of Supervisors, found that a client does not have to have a fixed address to be eligible for GA). A client need merely have an intent to reside in the county to be eligible. All six counties use similar methods to confirm residency or intent to reside . Lawful aliens are eligible for GA in all counties.

Stipulated Judgement

Because of a 1985 stipulated Judgement signed by the SF Department of Social Services and the Coalition for a Humane GA Program, SF must see all GA applicants within 72 work hours of appearance at the GA office. Food and shelter must be provided to those whose applications cannot be processed in the same day as their appearance at the GA office. This situation has generated overtime to process applicants in compliance with the stipulation.

Other Program Eligibility

All six counties deny GA to clients who are recipients of AFDC or SSI.

Only Alameda and LA do not require GA applicants to apply for AFDC or SSI prior to applying for GA.

GA is denied/discontinued upon granting of the benefits. The length of time from application to granting of SSI in particular appears excessive anywhere from 3 to 12 months.

All six counties provide their GA clients with the SSI appeals process, some helping with the application process too. While counties can recover GA aid payments and costs once a client is qualified for SSI, they cannot recover their administrative costs.

Job Readiness/Job Skills Training

All six counties offer GA recipients some type of job readiness or job skills training. Only SF and LA do not require GA recipients to participate in these programs.

- **SF reports a very low percentage of GA recipients (35%) who are considered employable vs other counties that report as many as 75%.**
- **All six counties report low percentages of GA applicants who are job ready or have the necessary skills to obtain a job (up to 10%).**

Fraud and Error Control

Among the six counties responding, fraud and error control generally occurs in three ways:

- **At intake, when an applicant is received**
- **On an ongoing basis, through "spot checks" or monthly reporting**
- **At recertification, when a general assistance client's eligibility is reviewed.**

Initial Review

Cross checking of existing GA clients is performed at intake in all six counties. Inter-jurisdictional checks are performed in Alameda and Sacramento counties (San Diego had no comment). AFDC records were also checked for all counties on each case. The use of unemployment insurance, DMV, Social Security and property tax records were generally reviewed for suspicious cases only; although San Francisco, Alameda, San Diego, and Santa Clara counties review unemployment insurance records on all cases. Los Angeles County only checks AFDC records.

Ongoing Review

Each county uses some system of ongoing welfare investigation, most commonly through face-to-face or home visit programs. Los Angeles County was unique in that it uses both an automated fingerprint matching system and an automated address matching system. Recertification of GA clients occurs every 12 months at each county except San Francisco and San Diego, where six month recertification programs exits. Each county, except Los Angeles, requires face-to-face interviews for recertification. Los Angeles' recertification system is entirely automated.

Each county maintains some monthly reporting system for its clients. In Alameda, Los Angeles and Santa Clara, every client is required to report monthly. In Sacramento, 33% of the clients, specifically -- *Aid-in-Kind* and employable clients--report monthly. Only 2.7% of San Francisco's clients are required to report monthly. San Diego provided no clear data on monthly reporting requirements.

Factors Affecting Fraud and Errors

Of the four counties responding to this section of the survey (San Diego had "non comment", Alameda provided no response), complexity of regulations/instructions and excessive caseloads were most frequently cited as the main contributors. San Francisco and Santa Clara identified the size of grant as a contributing factor, while Los Angeles and Sacramento identified larcenous individuals and the lack of verifiable information and identification as significant factors.

As to the changes in procedures which would reduce fraud and error, Alameda and Los Angeles suggested fingerprinting (Los Angeles has a program in place). Reduction in caseload and duplication of efforts were listed by Sacramento and San Francisco. San Francisco also suggested a statewide database and uniform statewide programs.

Eligibility and Recertification Workload

In Alameda, Los Angeles and Santa Clara, the average number of recertifications per eligibility worker per month was between 10 and 16. In San Francisco, the average was 25. San Diego and Sacramento either did not gather this information or did not provide it. As to time spent on verification, recertification and payment distribution, only San Francisco, Los Angeles, and Santa Clara responded.

Verification, Recertificaton, and Payment Distribution

	SF Intake *	SF Carrying *	Los Angeles	Santa Clara
Verifying Eligibility	75%	65%	25%	50%
Handling Recertifications	0	25	15	35
Distributing Payments or Vouchers	23	10	20	10

* San Francisco split its eligibility workers into two groups.

Staffing

Overview

At fiscal year end 1990, San Francisco employed 1,100 individuals. Of this total, 38% were employed in Administrative (including above-line supervisors) or Clerical positions and 53% were in direct line positions. Line positions include Social Workers (for Adult and Children Services), Eligibility Workers (for Income Maintenance programs such as food stamps, AFDC, Medi-Cal, and GA), and Employment Workers (for employment programs).

Conclusions

- **San Francisco has a higher ratio of caseload per staff than all other counties except LA.**

San Francisco's caseload is growing at an annual rate of 8.4%, whereas total budgetted staff is growing at only 7.1%. Actual staffing, according to filled positions, has increased at an annual rate of only 4.3%.

Among survey participants, San Francisco has the highest proportion of total staff allocated to Administrative positions and the lowest proportion to Clerical. According to SF's 1991/92 budget, future staffing is expected to be slightly more in line with survey averages.

The proportion of staffing attributable to line positions (i.e., Social, Eligibility and Employment Workers) is consistent with other survey participants.

While all other counties in the survey spend significant dollars on contract workers, San Francisco does not.

San Francisco considers the following to be the most seriously understaffed functions: Eligibility Workers in GA, Medi-Cal, Non-Assistance Food Stamps, and AFDC.

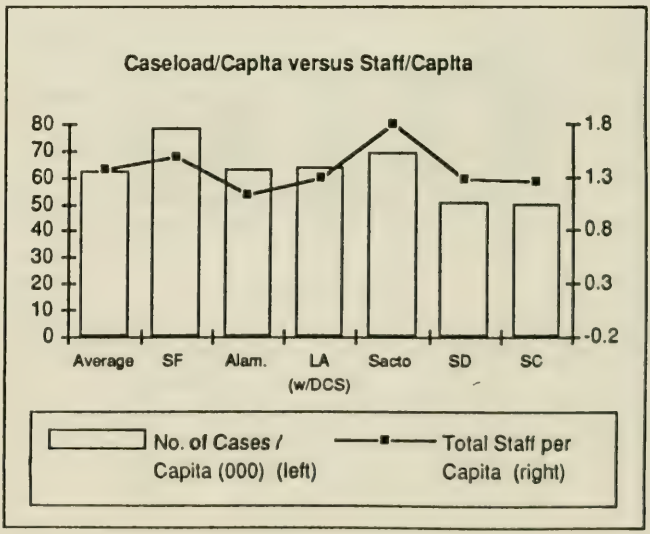
Peer County Review: Staffing
Fiscal Year: 1989/90

	Average	SF	Alam.	LA (w/DCS)	Sacto	SD	SC
Number of Workers:							
Total Staff (#)	3,456	1,100	1,450	11,302	1,848	3,199	1,839
Part-time (#)	NA	NA	0	295	NA	0	0
Contract (annual cost: $000s)	$9,259	$80	$7,467	$12,860	$4,670	$17,510	$12,986

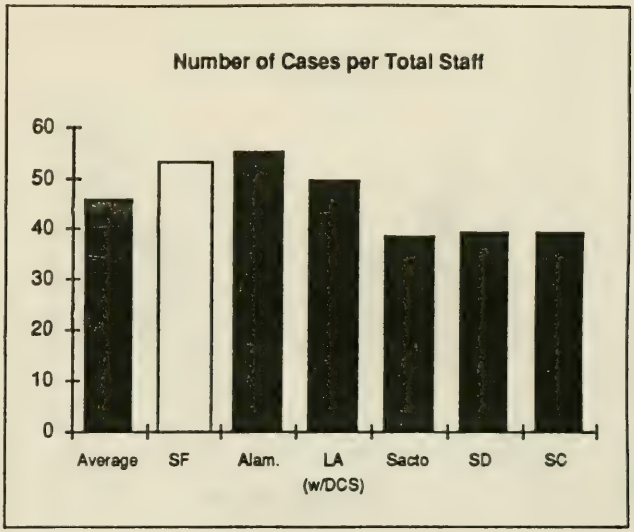
	SF	Alam.	LA (w/DCS)	Sacto	SD	SC
Most seriously understaffed functions (as self-reported):						
Eligibility Workers in GA	x	x		x		x
Medi-Cal	x					x
Non Assistance Food Stamps	x					x
AFDC	x					x
Administrative		x		x		
Clerical		x	x	x		
Social Workers		x				
Services				x		
Support functions					x	
Children's Services			x		x	x
Adult Protective Services					x	
Employment Services					x	
General Relief case maintenance			x			

* Categories are not necessarily mutually exclusive.

- San Franciso has the highest number of cases per capita, but only slightly more staff per capita.

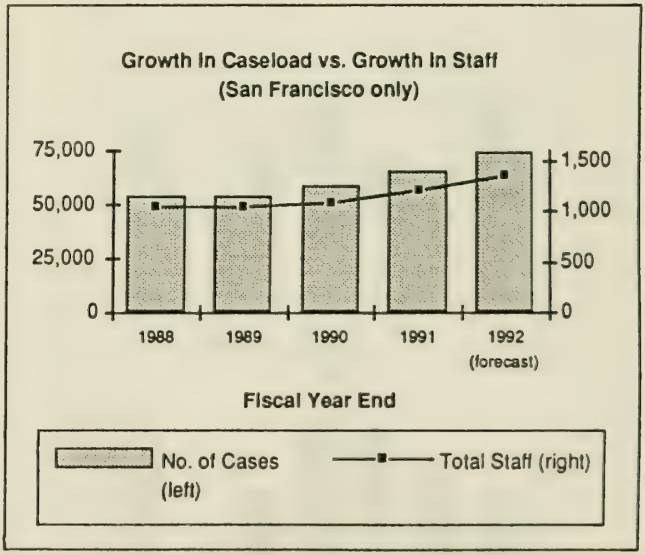


- In accordance with the data above, San Francisco has a higher ratio of cases per staff than the survey average.



- Caseload in San Francisco is growing at a compound annual growth rate of 8.4% versus only 7.1% for total staffing.

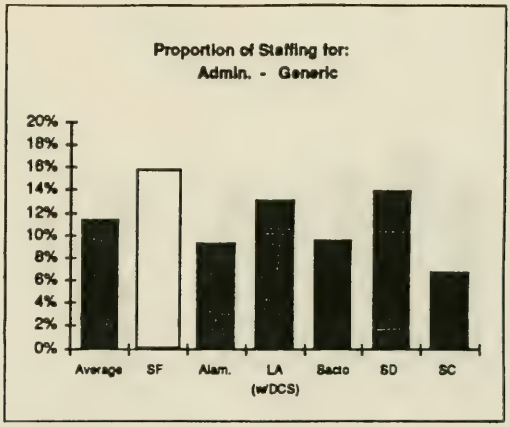
  (Note: 1991/92 forecasted staff is based on supplemented budget of 1,368. Actual 1st Qtr. 91/92 staff totaled 1,194, implying an actual compound annual growth rate to-date of 4.3%).



- **San Francisco has the highest proportion of total staffing attributable to Administrative - Generic * functions.**

  (Note: SF's 1991/92 budget, reflecting a proportion of 13%, is more in line with survey's average).

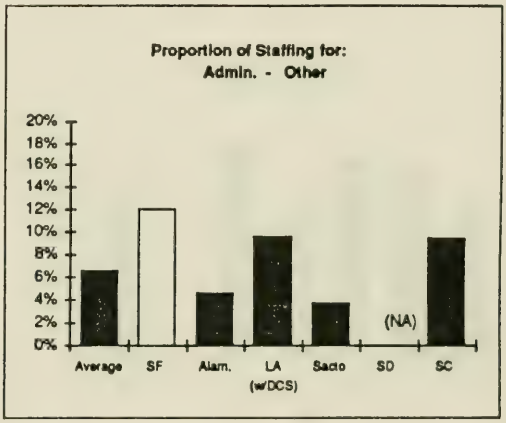
  * Generic functions are those that cannot be tied to one particular program.



- **San Francisco has the highest proportion of total staffing attributable to Administrative - Other ** functions.**

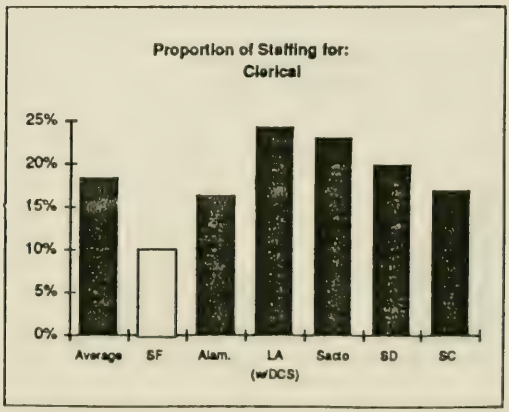
  (Note: SF's 1991/92 budget, reflecting a proportion of 10%, is closer to the survey's average).

  ** Other Administrative functions are those that can be tied to one particular program.

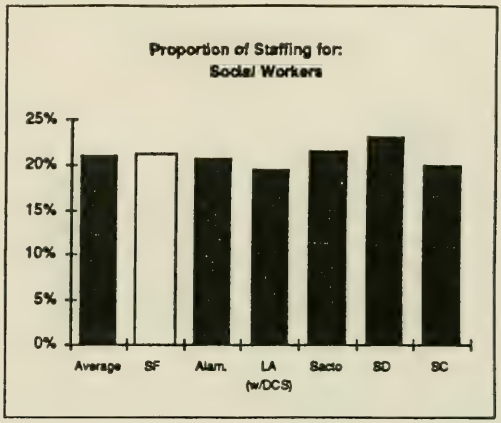


- **San Francisco has the lowest proportion of total staffing attributable to Clerical functions.**

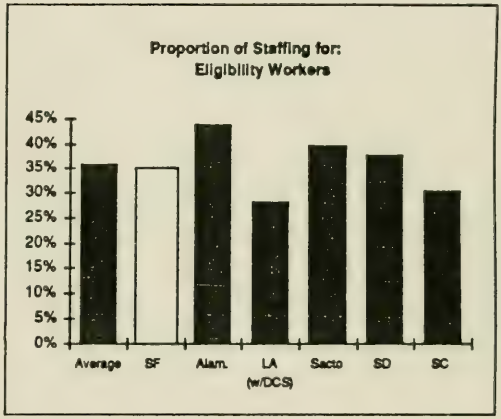
  (Note: SF's 1991/92 budget, reflecting a proportion of 12%, is slightly more inline with survey's average).



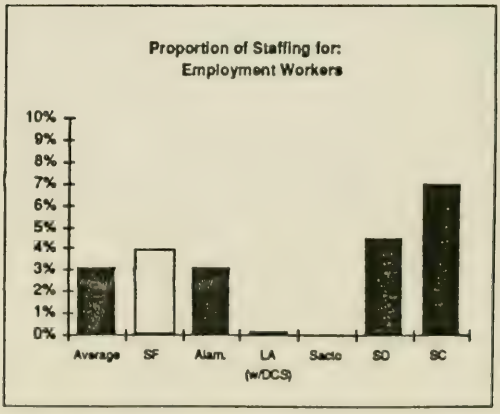
- **San Francisco has an average proportion of staff attributable to Social Worker positions.**



- **San Francisco has an average proportion of staff attributable to Eligibility Worker positions.**

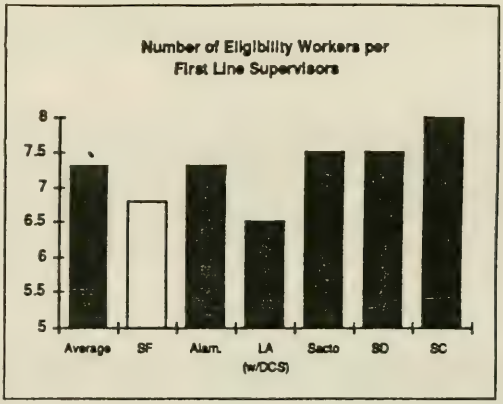


- **San Francisco has roughly an average proportion of staff attributable to Employment Worker positions.**



- **San Francisco has a lower ratio of Eligibility Workers to First-Line Supervisors than the average.**

  (Note that the state establishes supervisor ratios for each county and for each program).



3/30/92

Expenditures and Funding Sources

This section looks primarily at expenditures for administration and operating, not at aid payments.

Income Maintenance Programs

- In the AFDC, Foster Care, Food Stamps, and Medi-Cal programs, the peer counties had a 25% required share of cost for 1987-88 through 1989-90. Generally, if counties overmatched, it was by only 2 or 3 percentage points. SF did not overmatch at all on AFDC, Food Stamps or Medi-Cal.

Adult Service Programs

- The Adult Services Program includes Adult Protective Services and administration of the In-Home Supportive Services Program. Because the allocations for service programs are capped, most counties spend more than their required match, but SF overmatches to a greater extent than many other counties.

County Share of Child Welfare Services Cost

- Because the State Department of Social Services typically underfunds even the cost of staffing at its workload targets, counties generally spend more than their match.
- Counties overmatch their allocation because the courts require them to buy services for dependents and their families that frequently are not covered by their allocations.
- SF' overmatch for 1991-92 is $2.5 million (15.5% of total program cost). Passage of Prop J on the November 1991 ballot requires the county to maintain that level of local commitment for the next ten years.

County Share of Licensing and Adoptions Programs Cost

- Administration and funding of the Adoptions program and of licensing foster and adoptive homes is a State responsibility. SF has voluntarily agreed to administer both programs in order to maintain greater control over the availability of suitable placement options.

- **All of the local shares displayed in the tables below represent voluntary county costs. SF's overmatch for Adoptions and Licensing for 1991-92 is $635,000. Passage of Prop J also requires the county to maintain that level of local commitment for the next ten years.**

Adoptions-County Share			
County	87-88	88-89	89-90
SF	54%	27%	35%
Alameda	1%	0%	0%
LA	0%	0%	0%
Sacramento	0%	0%	0%
San Diego	1%	0%	0%
Santa Clara	41%	27%	3%

Foster/Adoptive Home Licensing-County Share			
County	87-88	88-89	89-90
SF	62%	69%	25%
Alameda	0%	0%	0%
LA	0%	0%	0%
Sacramento	0%	0%	0%
San Diego	0%	0%	0%
Santa Clara	25%	17%	7%

Efficiency Measures

Summary

Efficiency measures for the seven counties can be divided into four areas:

1. **Automation**
2. **Contracting**
3. **Streamlining**
4. **Consolidation and Coordination**

1. Automation was by the far most common method used in creating more efficient operations.

2. Closely related to automation as an efficiency measure, was the contracting of services to design a great variety of information systems and procedures. Other contracted services included hiring private security systems.

3. Streamlining procedures ran the gamut of measures from blanket court orders for traveling to instant testing of job applicants.

4. Consolidation and Coordination is another theme woven throughout the efficiency measures mentioned above. This seems to be especially the focus of San Diego County where the county looks for partners in school districts, Housing Commission, and medical centers to work toward one stop shopping approach.

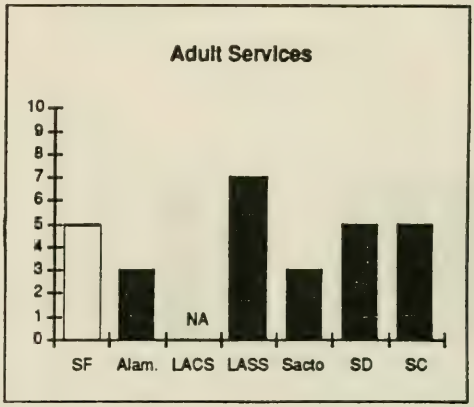
Conclusions

From the data provided, San Diego County seems to have the most comprehensive efficiency plans and programs with an overall philosophy of tying together existing resources in and out of its direct control through automating, contracting, streamlining, and consolidating.

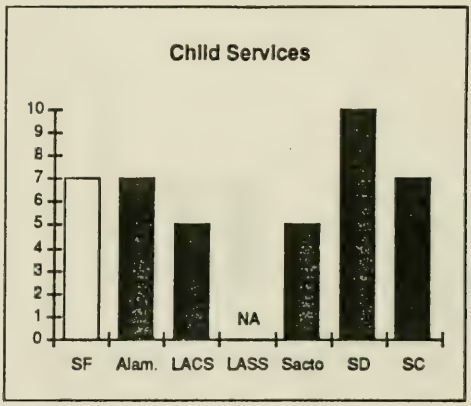
Extent of Automation
Scale
Not at All — Moderate — Completely
1 2 3 4 5 6 7 8 9 10

Case Tracking

- San Francisco is slightly above average in the automation of Adult Services.



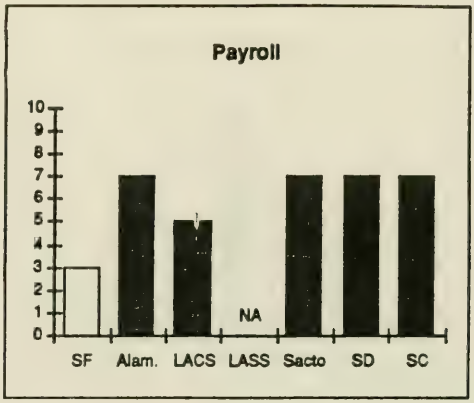
- San Francisco is slightly above average in the automation of Child Services.



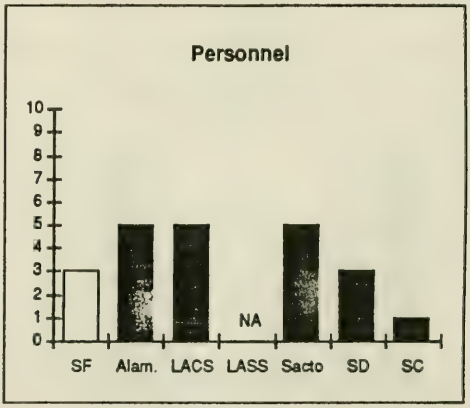
Extent of Automation
Scale
Not at All — Moderate — Completely
1 2 3 4 5 6 7 8 9 10

Operations

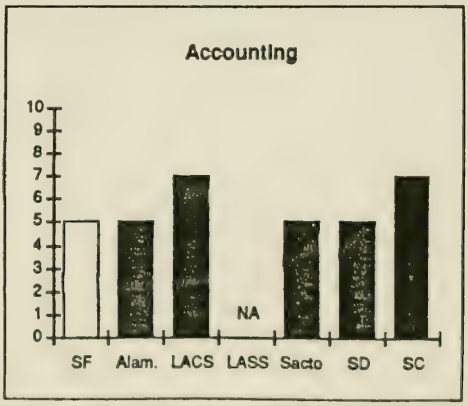
- San Francisco is below average in the automation of Payroll.



- San Francisco is slightly below average in the automation of Personnel.

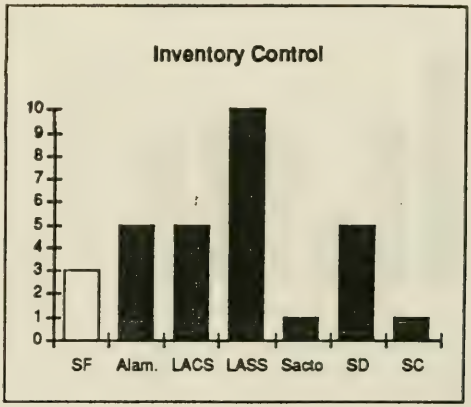


- San Francisco is slightly below average in the automation of Accounting.

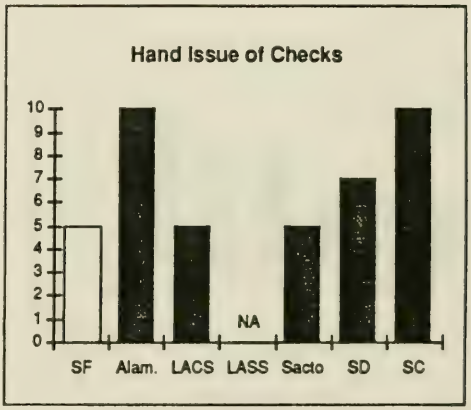


Extent of Automation
Scale
Not at All Moderate Completely
1 2 3 4 5 6 7 8 9 10

- San Francisco is below average in the automation of Inventory Control.



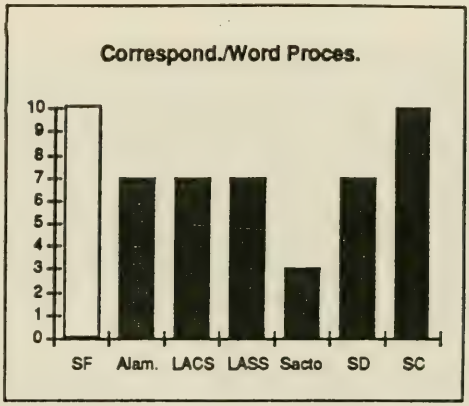
- San Francisco is below average in the automation of Hand Issue of Checks.



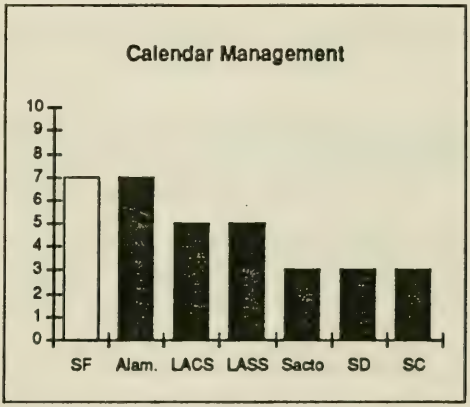
Extent of Automation
Scale
Not at All Moderate Completely
1 2 3 4 5 6 7 8 9 10

Basic Office

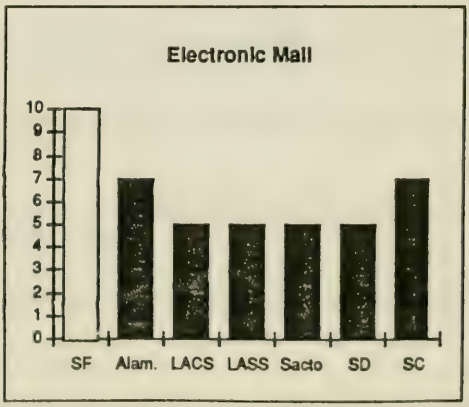
- San Francisco is well above average in the automation of Correspondence and Word Processing.



- San Francisco is well above average in the automation of Calendar Management.



- San Francisco is well above average in the automation of Electronic Mail.



Methodology

The Mayor's Fiscal Advisory Committee (MFAC) Team 6 has had the responsibility of reviewing the Social Services Department of the City to analyze long-term trends and determine how best to handle its growing workload. The Department covers a broad range of services to thousands of needy recipients. The total 1991-92 budget is $278 million. It has approximately 1,200 employees who speak 47 languages and dialects. With this kind of diversity, our team had to narrow our focus and determine what were the key elements within the Department that should be addressed.

The methodology we utilized in this endeavor over the past 12 months involved four steps:

1 we reviewed available material on various social services programs,

2 we visited the Department of Social Services where we interviewed eligibility workers and other employees and reviewed the intake and case processes in action;

3 we conducted a survey of six California counties to gather comparative data about social services benefits and administrative processes; and

4 we analyzed and evaluated the survey results and our findings.

It became apparent early on that our primary focus should be in the area of General Assistance. The reason for this was:

- General Assistance is wholly funded from the City's General Fund.
- GA represents over 55% of social services expenditures funded by the City.
- GA costs and caseloads are growing at an alarming rate.

8

THE PURCHASING DEPARTMENT OF CCSF AND THE MFAC CONDUCTED A SURVEY OF PUBLIC PURCHASING AGENCIES IN CALIFORNIA.

*

* HOW DO SAN FRANCISCO WORKLOADS AND STAFFING LEVELS COMPARE TO OTHER CITIES/COUNTIES ? WHAT CAN BE DONE TO IMPROVE EFFICIENCY ?

* WHAT PURCHASING PERFORMANCE MEASUREMENT METHODS ARE BEING USED ?

*

SIX JURISDICTIONS SURVEYED WERE:

CITY OF SAN JOSE
* COUNTY OF SANTA CLARA

CITY OF LOS ANGELES
* COUNTY OF LOS ANGELES

CITY OF SAN DIEGO
* COUNTY OF SAN DIEGO

SCOPE OF PURCHASING

	Public Works	General Svcs.	Health	Sheffif	Police	Fire	Rec/ Parks	Library	Water	Transit	Airport	Sewage Treat	Port
City/County of SF (x'= buying staff located on site)	x'	x	x'	x	x	x	x'	x	x'	x'	x'	x'	x
City of San Jose	x	x			x	x	x	x			x	x	
County of Santa Clara	x	x	x	x						x			
City of Loa Angeles	x	x			x	x	x	x					
County of Los Angeles	x	x	x	x									
City of San Diego	x	x			x	x	x	x					
County of San Diego	x	x	x	x									

* CCSF ANNUAL VOLUME= $181 MILLION FOR COMMODITIES, NON-PROFESSIONAL SERVICES.

* CCSF PURCHASING IS THE BROADEST OF ALL OF THE SURVEYED AGENCIES. IT SUPPORTS NOT ONLY GENERAL CITY AND COUNTY FUNCTIONS, BUT ALSO SUPPORTS UTILITIES MORE COMMONLY OPERATED THROUGH SPECIAL DISTRICTS AND AGENCIES.

* CCSF PURCHASING STAFF IS DECENTRALIZED; SURVEYED AGENCIES ARE CENTRALIZED.

KEY FINDINGS

* THE SCOPE OF CCSF'S PURCHASING FUNCTION IS THE BROADEST OF ALL SURVEYED AGENCIES. STAFFING FALLS WITHIN THE RANGE OF THE SURVEYED AGENCIES.

* PURCHASING SHOULD CONTINUE TO FOCUS EFFORTS ON:

  * EXPANDING THE USE OF ANNUAL CONTRACTS.

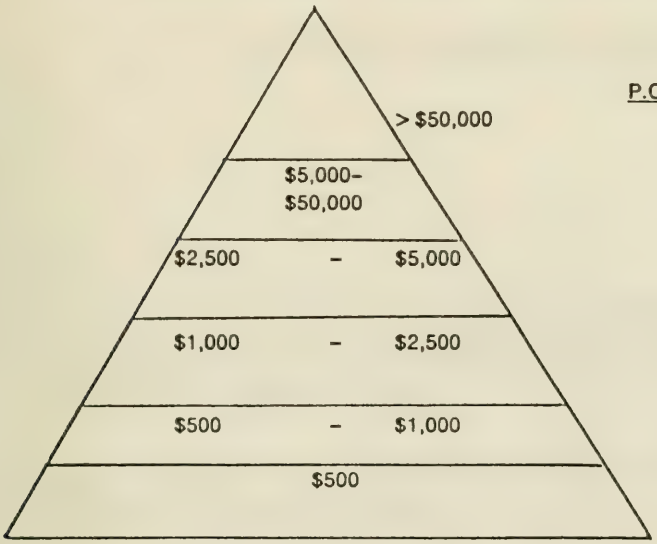
  * IMPLEMENTATION OF THE AUTOMATED PROCUREMENT SYSTEM.

  * STUDYING THE COST/BENIFIT OF PURCHASING'S INVOLVEMENT IN PERSONAL SERVICE CONTRACTS.

* ONLY TWO SURVEYED AGENCIES REPORTED THEY HAD A FORMAL PERFORMANCE MEASUREMENT SYSTEM.

CCSF SHOULD EXPAND ITS MONITORING OF REQUISTION TURNAROUND TIME.

PURCHASING LONG-RANGE STRATEGY



	P.O. DOC'S	P.O. $
> $50,000	1%	28%
$5,000-$50,000	14%	45%
$2,500 - $5,000	12%	10%
$1,000 - $2,500	24%	10%
$500 - $1,000	23%	4%
$500	28%	2%

* FOCUS STAFF RESOURCES ON HIGHER VALUE PURCHASES AND ON DEVELOPMENT OF ANNUAL CONTRACTS FOR MORE HIGH-VOLUME COMMODITIES, BY:

  - RAISING THRESHOLDS FOR INFORMAL BIDDING, AND/OR;

  - DELEGATING AUTHORITY TO DEPARTMENTS TO PURCHASE LOW-VALUE ITEMS (MAY REQUIRE CHARTER CHANGE)

* STRATEGY REQUIRES:

  - CONTINUED IMPLEMENTATION OF AUTOMATED SYSTEMS, TO PROVIDE COMMODITY DATA;

  - FEWER, BUT MORE SPECIALIZED, BUYING PROFESSIONALS.

USE OF ANNUAL CONTRACTS

* THE CITY OF LOS ANGELES AND COUNTY OF LOS ANGELES IN AGGREGATE USE ANNUAL CONTRACTS FOR 60% OF THEIR ANNUAL VOLUME OF $700 MILLION.

* CCSF USES ANNUAL CONTRACTS FOR 25% OF ITS ANNUAL VOLUME OF $180 MILLION.

* ANNUAL CONTRACTS ENABLE DEPARTMENTS TO PLACE PURCHASES DIRECTLY, THEREBY HELPING BUYING STAFF ACHIEVE BETTER CONTROL OVER THE WORKLOAD.

* FURTHER CONSOLIDATION OF PURCHASES BY THE USE OF ANNUAL CONTRACTS COULD SAVE THE CITY $1.5 MILLION PER YEAR, ONCE COMMODITY-LEVEL DATA IS AVAILABLE FROM NEW AUTOMATED SYSTEMS.

PERSONAL SERVICES CONTRACTS

* ANNUAL VOLUME FOR CCSF APPROXIMATES $150 MILLION.

* SURVEYED AGENCIES DO NOT CENTRALIZE PERSONAL SERVICES CONTRACTING– NEITHER DOES SAN FRANCISCO.

* FURTHER STUDY SHOULD BE UNDERTAKEN, TO DETERMINE IF CENTRALIZATION IS PRACTICAL OR COST-EFFECTIVE. THIS SHOULD INCLUDE A COST-BENEFIT ANALYSIS AND A COMPARATIVE ANALYSIS OF HOW OTHER AGENCIES MANAGE PERSONAL SERVICES CONTRACTS.

AUTOMATION AND PERFORMANCE MEASUREMENT SYSTEMS

* THE CITY SHOULD CONTINUE TO SUPPORT IMPLEMENTATION OF THE AUTOMATED PROCUREMENT SYSTEM, SO THAT COMMODITY DATA CAN BE CAPTURED FOR DEVELOPMENT OF ANNUAL CONTRACTS.

8

SURVEY OF PUBLIC PURCHASING AGENCIES

INTRODUCTION

THE PURCHASING DEPARTMENT FOR THE CITY AND COUNTY OF SAN FRANCISCO (CCSF), IN CONJUCTION WITH THE MAYOR'S FISCAL ADVISORY COMMITTEE, CONDUCTED A SURVEY OF PUBLIC PURCHASING AGENCIES IN CALIFORNIA. THE SURVEY FOCUSED ON TWO QUESTIONS:

- HOW DO SAN FRANCISCO'S WORKLOADS AND STAFFING LEVELS COMPARE WITH THOSE OF OTHER CITIES AND COUNTIES?

- WHAT METHODS ARE IN USE FOR MEASURING THE PERFORMANCE OF PURCHASING FUNCTIONS?

SIX JURISDICTIONS WERE ASKED TO PARTICIPATE IN THE SURVEY:

- CITY OF SAN JOSE
- COUNTY OF SANTA CLARA

- CITY OF LOS ANGELES
- COUNTY OF LOS ANGELES

- CITY OF SAN DIEGO
- COUNTY OF SAN DIEGO

KEY FINDINGS AND RECOMMENDATIONS DRAWN FROM THE SURVEY ARE SUMMARIZED ON THE FOLLOWING PAGE. DETAILED SURVEY RESULTS ARE PRESENTED IN TABLES 1-3, WITH FINDINGS AND RECOMMENDATIONS PRESENTED ON THE ACCOMPANYING PAGES.

SURVEY OF PUBLIC PURCHASING AGENCIES

KEY FINDINGS AND RECOMMENDATIONS

- SCOPE OF PURCHASING: THE SCOPE OF THE CCSF PURCHASING FUNCTION IS THE BROADEST OF ALL OF THE SURVEYED AGENCIES, WHICH PLACES GREATER DEMANDS ON PURCHASING MANAGEMENT AND STAFF, IN COMPARISON WITH AGENCIES SERVING FEWER "CUSTOMERS."

- PERSONAL SERVICES CONTRACTS: ALTHOUGH THE SURVEYED AGENCIES GENERALLY DO NOT HANDLE PERSONAL SERVICES CONTRACTING, IT IS POSSIBLE THAT CENTRALIZED CONTRACT FORMULATION AND ADMINISTRATION OF THE AWARD PROCESS COULD RESULT IN COST SAVINGS. THE VOLUME OF SUCH CONTRACTING IS LARGE, AND THE CITY SHOULD EVALUATE THE POSSIBILITY OF CENTRALIZING IT WITHIN PURCHASING. STAFFING WOULD NEED TO BE PROVIDED FOR PURCHASING TO ASSUME THIS FUNCTION.

- DECENTRALIZATION OF STOREROOM MANAGEMENT: AS RESPONSIBILITY FOR MAINTAINING $25 MILLION IN CITY INVENTORIES IS DECENTRALIZED, THE CITY SHOULD ENSURE THAT ADEQUATE CONTROLS ARE MAINTAINED BY DEPARTMENTS, THROUGH AUDITS PERFORMED BY THE CONTROLLER.

- USE OF ANNUAL CONTRACTS: PURCHASING SHOULD CONTINUE TO FOCUS EFFORTS ON EXPANDING THE USE OF ANNUAL CONTRACTS. ANNUAL CONTRACTS ENABLE DEPARTMENTS TO PLACE PURCHASES DIRECTLY, THEREBY HELPING PURCHASING'S BUYING STAFF TO GAIN GREATER CONTROL OVER THE WORKLOAD. FURTHERMORE, ANNUAL CONTRACTS WILL RESULT IN COST SAVINGS THROUGH CONSOLIDATION OF PURCHASES.

- AUTOMATION AND PERFORMANCE MEASURES: IMPLEMENTATION OF THE AUTOMATED PROCUREMENT SYSTEM SHOULD CONTINUE TO BE SUPPORTED, SO THAT COMMODITY DATA CAN BE CAPTURED FOR DEVELOPMENT OF ANNUAL CONTRACTS. IN ADDITION, PURCHASING SHOULD MODIFY THE EXISTING DOCUMENT TRACKING SYSTEM TO REPORT PERCENTAGE PERFORMANCE WITHIN TIME THRESHOLDS.

SURVEY OF PUBLIC PURCHASING AGENCIES

SCOPE OF PURCHASING

FINDINGS (SEE TABLE 1)

- THE SCOPE OF THE CCSF PURCHASING FUNCTION IS THE BROADEST OF ALL OF THE SURVEYED AGENCIES, BECAUSE:
  - SAN FRANCISCO IS THE ONLY CHARTERED CITY AND COUNTY AMONG THESE JURISDICTIONS;
  - THE PURCHASING DEPARTMENT ALSO SUPPORTS UTILITIES MORE COMMONLY OPERATED THROUGH SPECIAL DISTRICTS AND AGENCIES (TRANSIT, AIRPORT, PORT, WATER, SEWAGE TREATMENT) .
- THE SURVEYED PURCHASING DEPARTMENTS ARE CENTRALIZED. IN CONTRAST, CCSF PURCHASING STAFF IS DIVIDED AMONG:
  - CITY HALL CENTRAL OFFICE;
  - DECENTRALIZED LOCATIONS SERVING SEVEN MAJOR DEPARTMENTS.
- THE RANGE OF DEPARTMENTS SERVED PLACES GREATER DEMANDS ON PURCHASING MANAGEMENT AND STAFF, IN COMPARISON WITH AGENCIES HAVING FEWER "CUSTOMERS," FOR:
  - COORDINATING WITH DEPARTMENTS REGARDING SERVICE LEVELS, STAFFING, POLICIES AND PROCEDURES, AND SPECIFIC ISSUES;
  - DEVELOPING AND MAINTAINING BUYER EXPERTISE IN COMMODITIES USED BY DEPARTMENTS;
  - IDENTIFYING AND INTEGRATING USAGE ESTIMATES ACROSS DEPARTMENTS FOR COMMONLY USED ITEMS, FOR PURPOSES OF CONSOLIDATED PURCHASING.

RECOMMENDATIONS

NONE

SURVEY OF PUBLIC PURCHASING AGENCIES

POLICIES AND FUNCTIONS

FINDINGS (SEE TABLE 2)

- PERSONAL SERVICES CONTRACTS: THE SURVEYED PURCHASING DEPARTMENTS, AS WELL AS CCSF PURCHASING, GENERALLY DO NOT HANDLE PERSONAL SERVICES CONTRACTS. THE CCSF PURCHASING DEPARTMENT HAS ESTABLISHED A MODEL CONTRACT AND PROCEDURES FOR DEPARTMENTS TO HANDLE THEIR OWN PERSONAL SERVICES CONTRACTS; HOWEVER, PURCHASING IS NOT STAFFED TO FORMULATE SUCH CONTRACTS FOR DEPARTMENTS OR TO ADMINISTER THE EVALUATION AND AWARD PROCESS.

- PO/INVOICE MATCHING: NONE OF THE SURVEYED AGENCIES DIRECTLY PERFORMS PO/INVOICE MATCHING FUNCTIONS, WHICH ARE TYPICALLY HANDLED IN CONTROLLER OR ACCOUNTING OFFICES.

  WHILE CCSF PURCHASING CURRENTLY PERFORMS PO/INVOICE MATCHING, IT IS EXPECTED THAT THIS WILL EVOLVE INTO THE CONTROLLER'S OFFICE, IN CONJUNCTION WITH AUTOMATION OF THE FUNCTION.

- STOREKEEPING: AT PRESENT, CCSF PURCHASING MANAGES DEPARTMENTAL STOREROOMS HAVING A TOTAL INVENTORY OF APPROXIMATELY $25 MILLION.

  IN FY 92/93, DEPARTMENTS WILL ASSUME RESPONSIBILITY FOR THEIR OWN INVENTORIES AND STOREROOMS (ASSUMING PASSAGE OF PROPOSITION H ON THE JUNE BALLOT). THE CONTROLLER'S OFFICE WILL ASSUME THE FUNCTION OF AUDITING STOREROOM INVENTORIES AND CONTROLS.

- REQUISITION SCHEDULES: THE SURVEY ASKED ABOUT REQUISITION SCHEDULES, THE USE OF WHICH WAS RECOMMENDED IN A RECENT CONSULTANT REPORT RECEIVED BY PURCHASING. IT WAS FOUND THAT NONE OF THE SURVEYED AGENCIES EMPLOYS A REQUISITION SCHEDULE, OTHER THAN IMPOSING YEAR-END DEADLINES.

SURVEY OF PUBLIC PURCHASING AGENCIES

POLICIES AND FUNCTIONS

RECOMMENDATIONS

- PERSONAL SERVICES CONTRACTS: ALTHOUGH THE SURVEYED AGENCIES GENERALLY DO NOT HANDLE PERSONAL SERVICES CONTRACTING, IT IS POSSIBLE THAT CENTRALIZED CONTRACT FORMULATION AND ADMINISTRATION OF THE AWARD PROCESS COULD RESULT IN COST SAVINGS. THE VOLUME OF SUCH CONTRACTING IS LARGE, AND THE CITY SHOULD EVALUATE THE POSSIBILITY OF CENTRALIZING IT WITHIN PURCHASING. STAFFING WOULD NEED TO BE PROVIDED FOR PURCHASING TO ASSUME THIS FUNCTION.

- DECENTRALIZATION OF STOREROOM MANAGEMENT: AS RESPONSIBILITY FOR MAINTAINING $25 MILLION IN CITY INVENTORIES IS DECENTRALIZED, THE CITY SHOULD ENSURE THAT ADEQUATE CONTROLS ARE MAINTAINED BY DEPARTMENTS, THROUGH AUDITS PERFORMED BY THE CONTROLLER'S OFFICE.

SURVEY OF PUBLIC PURCHASING AGENCIES

PERFORMANCE MEASURES

FINDINGS

- ONLY TWO SURVEYED AGENCIES REPORTED THAT THEY HAVE A FORMAL PERFORMANCE MEASUREMENT SYSTEM:

  - THE CITY OF SAN DIEGO HAS A FORMAL QUARTERLY PERFORMANCE REPORTING SYSTEM FOR ALL DEPARTMENTS, ADMINISTERED BY THE CITY MANAGER'S OFFICE. THE PURCHASING DEPARTMENT REPORTS REQUISITION TURNAROUND TIME AND MBE/WBE PARTICIPATION.

  - THE CITY OF LOS ANGELES REPORTS MBE/WBE DATA TO CITY POLICY MAKING BODIES. THEY ALSO TRACK BID TURNAROUND TIME.

- THE CCSF PURCHASING MEASUREMENT SYSTEM CONSISTS OF:

  - REQUISITION TURNAROUND TIME, BY TYPE OF AWARDING AUTHORITY
  - MBE/WBE PARTICIPATION, REPORTED QUARTERLY TO THE MAYOR
  - USER SATISFACTION SURVEY RATINGS

RECOMMENDATIONS

- AS PART OF THE DEPARTMENT'S AUTOMATION WORK, PURCHASING SHOULD MODIFY THE EXISTING DOCUMENT TRACKING SYSTEM TO REPORT PERCENTAGE PERFORMANCE WITHIN VARIOUS TIME THRESHOLDS.

SURVEY OF PUBLIC PURCHASING AGENCIES

TABLE 3 -- STAFFING AND WORKLOAD ANALYSIS

	Authorized Positions			Annual Purchasing Volume		Staffing Ratios			
	Managers	Buyers	Support	Documents	Value	Buyer/ Manager	Buyer/ Support	Doc's/ Buyer	Value/ Buyer
City/County of SF	4	20	12	27,023	$181,922,000	5.00	1.67	1,351	$9,096,100
(after Prop A)	3	18	12	27,023	181,922,000	6.00	1.50	1,501	10,106,778
City of San Jose	2	11	5	3,000	50,000,000	5.50	2.20	273	4,545,455
County of Santa Clara	3	17	4	23,000	101,000,000	5.67	4.25	1,353	5,941,176
Combined City/County	5	28	9	26,000	151,000,000	5.60	3.11	929	5,392,857
City of Los Angeles	4	18	22	NA	305,205,002	4.50	0.82	NA	16,955,833
County of Los Angeles	6	42	5	NA	400,294,706	7.00	8.40	NA	9,530,826
Combined City/County	10	60	27	NA	705,499,708	6.00	2.22	NA	11,758,328
City of San Diego	3	10	15	16,670	89,440,221	3.33	0.67	1,667	8,944,022
County of San Diego	3	20	14	NA	94,249,807	6.67	1.43	NA	4,712,490
Combined City/County	6	30	29	NA	183,690,028	5.00	1.03	NA	6,123,001

Annual value does not include construction contracts or personal services contracts.

SURVEY OF PUBLIC PURCHASING AGENCIES

STAFFING AND WORKLOAD ANALYSIS

FINDINGS (SEE TABLE 3)

- STAFFING COMPOSITION: THERE IS VERY WIDE VARIATION ACROSS THE SURVEYED AGENCIES IN TERMS OF STAFFING COMPOSITION:

  - BUYERS/MANAGER RANGES FROM 3.33 TO 7.00;

  - BUYERS/SUPPORT STAFF RANGES FROM 0.82 TO 8.40.

  CCSF PURCHASING'S STAFFING FALLS WITHIN THESE RANGES.

- ANNUAL PURCHASING VOLUME: INCLUDING CCSF, THREE OF THE FOUR AGGREGATE CITY/COUNTY GROUPS ARE CLOSE IN ANNUAL VOLUME:

  - CCSF — $181 MILLION

  - CITY OF SAN JOSE
COUNTY OF SANTA CLARA — $151 MILLION

  - CITY OF SAN DIEGO
COUNTY OF SAN DIEGO — $183 MILLION

  OF THESE THREE, CCSF PURCHASING HAS THE SMALLEST STAFF AT THE MANAGEMENT AND BUYER LEVELS.

  THE CITY AND THE COUNTY OF LOS ANGELES TOGETHER PURCHASE MORE THAN ALL OTHER AGENCIES COMBINED, INCLUDING CCSF; HOWEVER:

  - OF THE CITY OF LOS ANGELES' $305 MILLION ANNUAL VOLUME, $225 MILLION IS PURCHASED DIRECTLY BY DEPARTMENTS AGAINST ANNUAL CONTRACTS ESTABLISHED BY THE PURCHASING DEPARTMENT;

  - FOR THE COUNTY OF LOS ANGELES, $180 MILLION OF THE $400 MILLION ANNUAL VOLUME IS PURCHASED DIRECTLY BY DEPARTMENTS AGAINST ANNUAL CONTRACTS.

SURVEY OF PUBLIC PURCHASING AGENCIES

STAFFING AND WORKLOAD ANALYSIS

FINDINGS (CONTINUED)

- USE OF ANNUAL CONTRACTS: AS DESCRIBED ABOVE, BOTH THE CITY AND THE COUNTY OF LOS ANGELES RELY HEAVILY ON ANNUAL CONTRACTS FOR DIRECT PURCHASING BY DEPARTMENTS. THEY INDICATED THAT, WITHOUT ANNUAL CONTRACTS, THEIR STAFF WOULD NOT BE ABLE TO HANDLE THE VOLUME OF PURCHASING.

  CCSF PURCHASING ALSO EMPLOYS ANNUAL CONTRACTS, FOR ROUGHLY $50 MILLION OF ITS $181 MILLION ANNUAL VOLUME. THE DEPARTMENT IS CURRENTLY IMPLEMENTING AN AUTOMATED PROCUREMENT SYSTEM, WHICH WILL SUPPORT EXPANDED USE OF ANNUAL CONTRACTS IN AREAS NOT ALREADY COVERED.

  THROUGH THE END OF FY 91/92, THE DEPARTMENT WILL HAVE EXPENDED APPROXIMATELY $900,000 FOR SYSTEMS DEVELOPMENT AND IMPLEMENTATION, AND AN ADDITIONAL $300,000 ARE NEEDED IN FY 92/93. THE DEPARTMENT ESTIMATES THAT $1.5 MILLION IN ANNUAL BENEFITS COULD BE REALIZED WHEN THE SYSTEM IS FULLY OPERATIONAL. THESE BENEFITS ARE DUE PRIMARILY TO INCREASED CONSOLIDATION OF PURCHASES THROUGH USAGE OF ANNUAL CONTRACTS.

RECOMMENDATIONS

- USE OF ANNUAL CONTRACTS: PURCHASING SHOULD CONTINUE TO FOCUS EFFORTS ON EXPANDING THE USE OF ANNUAL CONTRACTS. ANNUAL CONTRACTS ENABLE DEPARTMENTS TO PLACE PURCHASES DIRECTLY, THEREBY HELPING PURCHASING'S BUYING STAFF TO ACHIEVE BETTER CONTROL OVER THE WORKLOAD. FURTHERMORE, ANNUAL CONTRACTS CAN RESULT IN COST SAVINGS THROUGH CONSOLIDATION OF PURCHASES.

- AUTOMATION: IMPLEMENTATION OF THE AUTOMATED PROCUREMENT SYSTEM SHOULD CONTINUE TO BE SUPPORTED, SO THAT COMMODITY DATA CAN BE CAPTURED FOR DEVELOPMENT OF ANNUAL CONTRACTS.

Mayor's Fiscal Advisory Committee

Task Force on
Long Term Revenue and Cost Trends

SAN FRANCISCO
EMPLOYEES RETIREMENT SYSTEM

Presentation to Mayor Frank Jordan

April 29, 1992

COMPARISON TO PEER CITIES/COUNTIES

- **San Francisco's pension plan obligations were about 81% funded at the end of FY 1990**
    - This is on a par with the average of the 50 largest US cities

- **The City's annual pension plan contributions are a higher percentage of covered payroll than in peer cities**

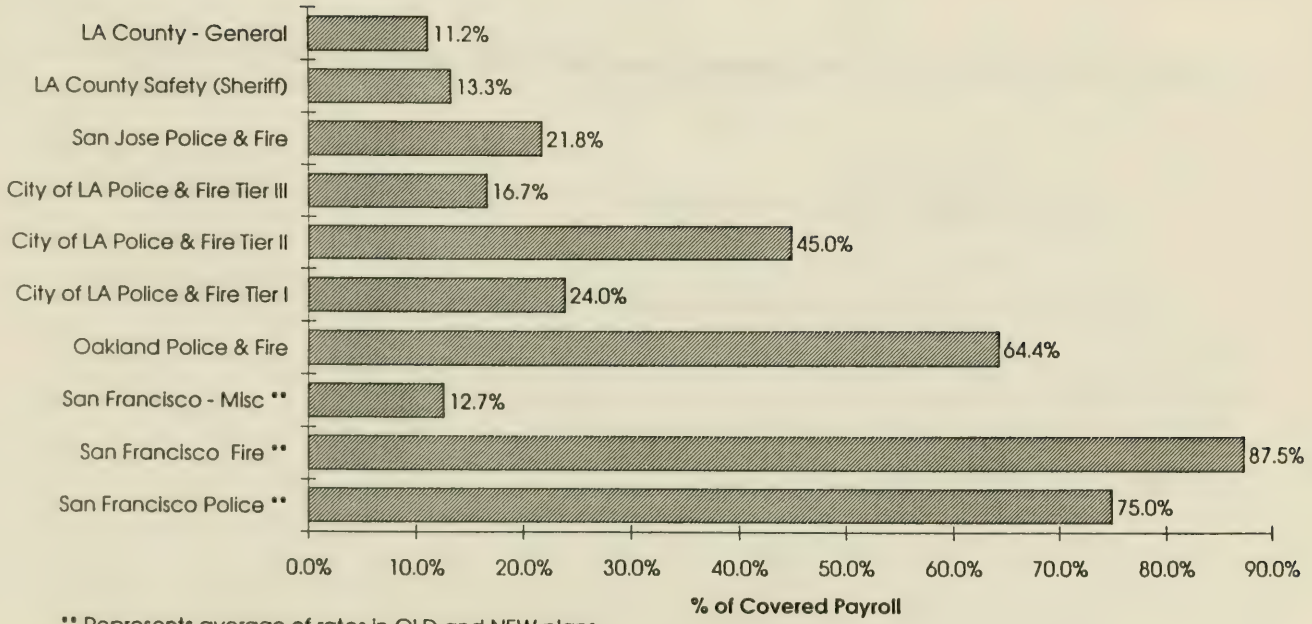
    - The chart on the next page shows that San Francisco's 1990 pension contributions were generally higher than in peer cities for all three large groups of employees: Police, Fire and Miscellaneous employees.

    - The annual costs shown are the blended average costs for San Francisco's OLD and NEW plans.

    - These costs cover 14,633 retirees and 24,199 employees. These employees are from the following three groups:

	Active Employees	% of Total	% In OLD Plans
Police	1,779	7.3%	38%
Fire	1,321	5.5%	58%
Miscellaneous	21,099	87.2%	28%
TOTAL	24,199	100%	30.6%

Annual Pension Plan Costs
SAN FRANCISCO VS SELECTED PEER CITIES
As % of Covered Payroll in FY 1990



** Represents average of rates in OLD and NEW plans

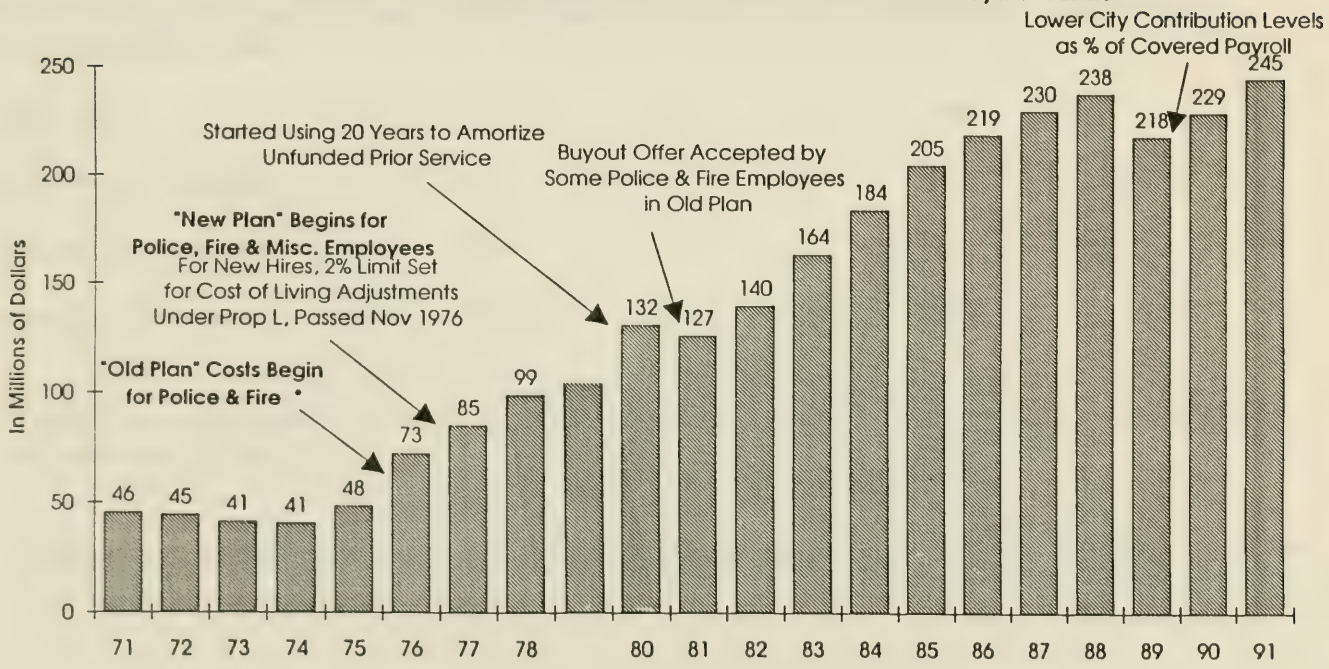
HOW THE OLD AND NEW PENSION PLANS WERE DEVELOPED IN SAN FRANCISCO

- **The chart on the following page shows that annual pension costs have risen from $46 million in 1971 to $245 million in 1991.**

  - In FY 1976, the first year under the OLD Police and Fire plan, pension costs rose by 50%.

  - In response, the voters approved the three NEW plans in November 1977.

City & County of San Francisco
Employees Retirement System
COST OF CITY'S CONTRIBUTIONS TO PENSION PLANS, BY YEAR



*Note: Old Plan set retirees cost of living adjustments at 50% of annual pay raises of active employees of same rank (Prop M, Nov 1974)

TREND OF PENSION CONTRIBUTION RATES

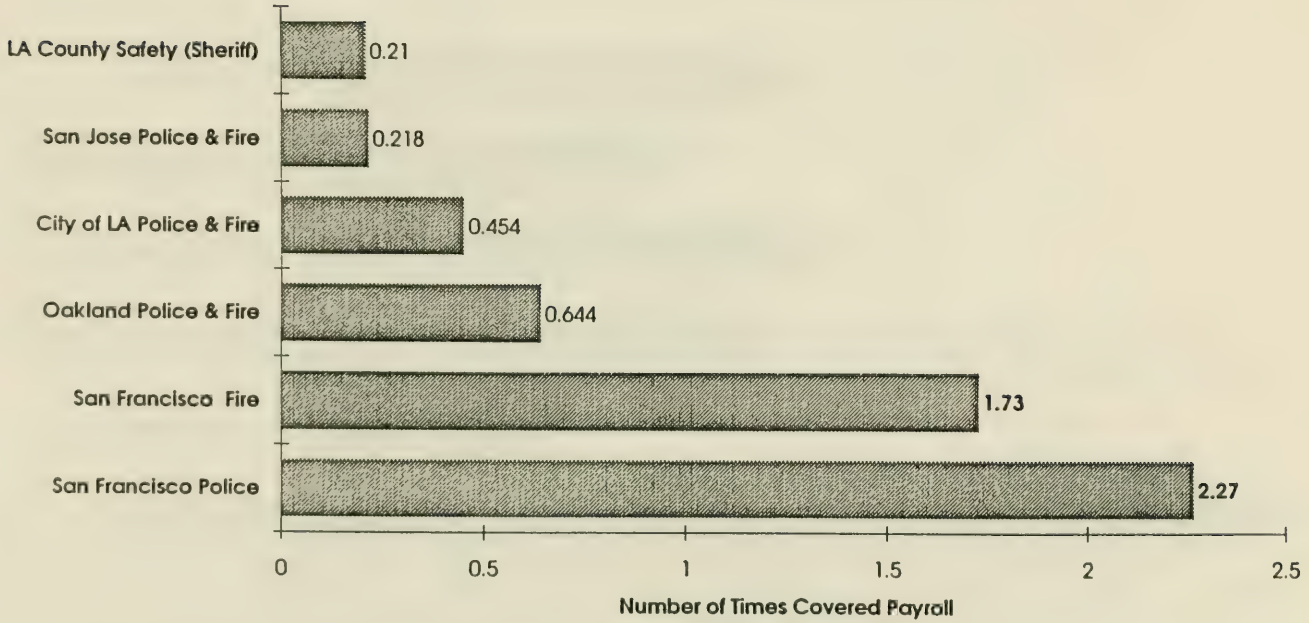
- **In 1991, although our cost levels are still higher than in peer cities, SF has made progress in slowing the growth of pension costs:**

Fiscal Year	**1986**	**1987**	**1988**	**1989**	**1990**	**1991**
Covered Payroll ($ Millions)	694	734	803	803	904	1,122
City Contribution to Plans	219	230	238	218	229	245
Contribution, as % Payroll	**31.6%**	**31.3%**	**29.6%**	**27.1%**	**25.3%**	**21.8%**

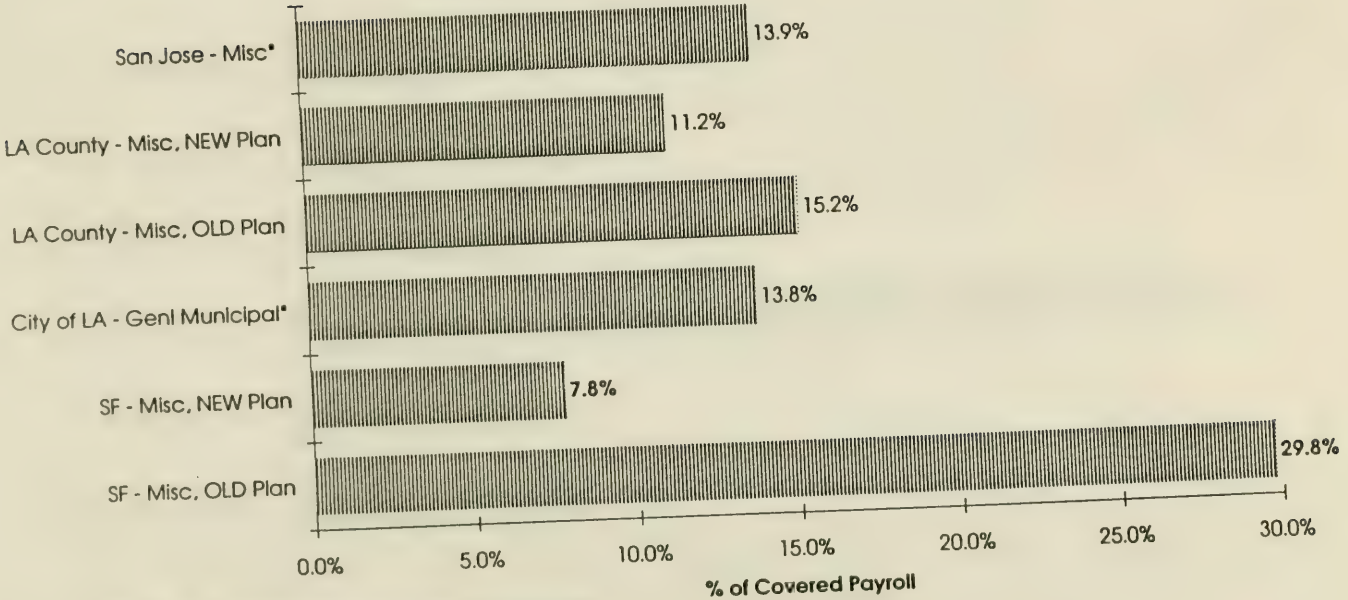
- The downward trend reflects the declining ratio of active employees enrolled in the old plans - down to 30% in 1991 from about 50% in 1986.

- The charts which follow show the contribution rates for the old and new plans.

Annual Pension Plan Costs
OLD PLANS - POLICE AND FIRE EMPLOYEES
Ratio to Covered Payroll in FY 1991

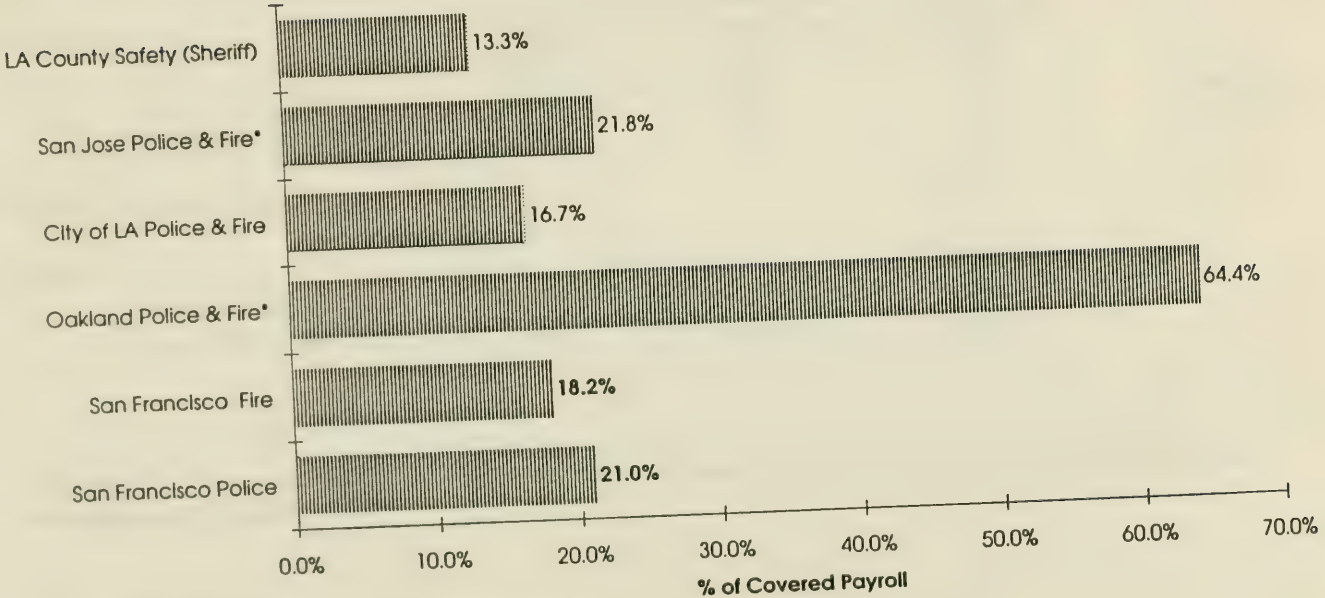


Annual Pension Plan Costs
MISC EMPLOYEES, OLD VS NEW PLANS
As % of Covered Payroll in FY 1990



*Cities with old and new employees in single plan

Annual Pension Plan Costs
NEW PLANS - POLICE AND FIRE EMPLOYEES
As % of Covered Payroll in FY 1990



* Cities with old and new employees in same plan

PENSION COSTS PAID BY EMPLOYEES

- **San Francisco's employee contributions for 1990 appear to be comparable to the peer cities**

	Employee Contribution as % of Covered Payroll			1990 Value (In Millions)
	Old Plan	New Plan	Average	
San Francisco				
Police	7.0%	7.5%	7.4%	$6 Million
Fire	7.0%	7.5%	7.4%	$5 Million
Miscellaneous	8.0%	7.5%	7.6%	$64 Million
LA County, Safety & General plans			5.1%	
San Jose				
Police & Fire	9.3%	9.3%	9.3%	
Most other employees	6.4%	6.4%	6.4%	

- **However, in the recent collective bargaining with the Police, San Francisco agreed to start paying the employee contribution.**

INVESTMENT RETURNS FROM PENSION FUND

- **Although results improved in 1991, the cumulative investment returns of SFERS have fallen short of key market indexes during the past five fiscal years:**

	Median Total Return/Yr	
	FY 1991	FY '86-91
	%	%
Public Pension Funds with over 55% Equity	7.41	11.46
Corporate Pension Funds (Callan Data Base)	7.07	9.53
All Public Plans (Callan Data Base)	7.91	9.35
SFERS	7.81	8.48

An additional 1% in total return for SFERS would be worth about $46 million in 1992. That is, the City's contribution to the pension plan could be reduced by about $46 million. An additional 1% in total return per year for the next five years would thus save the City over $225 million.

REASONS FOR UNDER PERFORMANCE

- A key reason for the lower investment return appears to be the heavy use of fixed income investments, and relatively low use of equity investments.

  Year-end reports show SFERS was over 60% invested in fixed income from 1986 through 1991. Equity investments ranged from 31% to 34% during the same period.

- Other major public pension funds, such as PERS in California and its equivalent in New York state were close to 50% invested in domestic and international equities at the end of 1991. The four largest corporate pension funds represented on MFAC had domestic equity securities averaging 51% of their pension assets, with up to 13% of additional pension assets invested in foreign equities..

- SFERS returns were also hurt by the poor performance of some equity managers who were terminated in 1990.

- Finally, the foreign policy positions taken by the SF Board of supervisors have impacted pension returns. For example, the Standard & Poor 500 Stock index rose a cumulative 75.3% over the five years 1986-91. However, the South Africa Free version of the Standard & Poor 500 index rose about only 65.7% over the same time period - a penalty of about 2% per year. At 2% a year, such a restriction could be costing San Francisco an extra $80 million per year in general fund contributions to the pension plan.

POLICY OPTION

1. Request the Retirement Board to review its asset allocation policy, with the objective of raising the equity component of San Francisco's pension fund to more closely match the level used in corporate pension funds.

2. Eliminate political restrictions on fund investments. nInstead, the City can use its proxy voting rights to exert pressure for more enlightened corporate policies.

3. Under no circumstances should San Francisco consider any extension of the OLD pension plans to new employees.

4. Instead, the City needs to look for financially feasible steps, such as a cash buyout or an early retirement program, that would provide incentives for OLD plan employees to shift into NEW plans.

WORKERS COMPENSATION

- Despite the numerous studies over the past ten years or more, the cost of workers comp claims is rising rapidly and remains out of control.

The cost increases reflect abuse by many employees. To cut the abuse and cut the costs, however, will take many more claims processors than the city has or can hire as City employees.

- It is clear that previous attempts to hire more City employees to work as claims adjusters have failed, because of the excessive workloads - two to three times the workload in private insurance companies.

- The most practical solution is to hire an outside firm (a TPA) to administer a significant part of the claims workload. The City's existing employees would then have a more reasonable workload left to manage.

- The economic benefits of hiring an outside firm are substantial.

  Based on a stratified sample of actual claims, it appears a reduction of over two months should be possible in the average disability claim. At a caseload of 8,200 claims and current disability benefit levels, the annual saving should exceed $6 million. After deducting an estimated annual fee of $2 million, the City should save $4 million a year.

POLICY OPTION

1. Give strong support to the pending proposal to hire an outside firm as a TPA.

Dept.

Court

MAYOR'S FISCAL ADVISORY COMMITTEE

COST AND REVENUE TREND PROJECT

SAN FRANCISCO COUNTY

SHERIFF'S DEPARTMENT

May 7, 1992

SAN FRANCISCO COUNTY
SHERIFF'S DEPARTMENT

The primary problem confronting the Sheriff's Department is jail overcrowding. Even though it is recognized that cost reductions must be made, adequate funding should be provided to administer the department's current responsibilities and prepare for the new jail facility in December 1993.

- 200 prisoners were transferred to Alameda County on 3/28/92 to relieve overcrowding and partially comply with various consent decree requirements.

- Cost of out-of-county prisoner housing will equate to about $4.6 million annually based on the number of prisoners scheduled to be transferred and the cost of transportation.

- Two weeks after the relocation of prisoners to Alameda County, the jail population exceeded the pre-transfer level.

- New jail facility is scheduled to open 12/93. Hiring needs to begin 7/92 to allow time to process candidates through the Academy in time for the opening.

- Approximately 40 recruits are to be trained per class and three sessions will be required to make necessary staffing available by 12/93.

- Based on jail population for the years 1987 through 1991, it is conservatively projected that by the year 2000 the number of prisoners will increase by more than 600.

PEER COUNTY COMPARISON

- Of five counties contacted, only Sacramento and Santa Clara provided useful comparative data on prisoner custody.

- Inmate to staff relationship for San Francisco of 7/1 is more cost effective, than Sacramento (4/1) and compares favorably to Santa Clara (7/1).

- Complications related to administration of court security function did not allow a straight forward correlation with any other county.

COMPUTER BASED INFORMATION SYSTEM

A new information processing system is needed to replace the obsolete Court Management System (CMS).

- Current system does not:
    - Generate adequate management information.
    - Create reports required by state and federal agencies with dependable accuracy.
    - Reliably link defendants with cases.
    - Capture sufficient data to meet statutory criminal justice reporting requirements.
- Manual information gathering between agencies frequently requires:
    - Generation and photocopying of reports,
    - Delivery of event information between agencies for processing a case,
    - Duplication of information entries.

- Service requests are backlogged, sometimes for years, due primarily to inordinate manual support requirements.

- Adding capabilities to the system is extremely difficult, or can not be accomplished at all.

- Growth in volume of information processing transactions has imposed severe burdens on system.

- **CMS no longer meets requirements of the criminal justice system.**

AN EFFICIENT, COMPUTER-BASED INFORMATION PROCESSING SYSTEM WAS DEVELOPED ABOUT FOUR YEARS AGO, BUT NOT FUNDED.

- **The San Francisco Justice Information System (SANJIS),** This program was designed to replace the Court Management System (CMS), and its features include:

  - automated fingerprint capture and identification
  - automated identification photograph capture
  - criminal justice information capture and processing

    (1) arrest information
    (2) custody information
    (3) court information
    (4) probation reporting information

  - Provides multiple-level discreet and integrated statistical and non-statistical information analysis system, i.e.,

    - criminal justice unit or section level;
    - agency level (e.g., police, sheriff, and municipal/superior courts);
    - City and County level.

- **Benefits**

By integrating the entry data from all elements of the criminal justice system, the program will:

- Expedite apprehension of dangerous defendants by court-to-computer direct warrant entry
- Avoid litigation for false arrest or false imprisonment, due to information-processing errors
- Recover costs for incarceration, assure compliance with terms of probation, and recapture non-compliant defendants by automated probation case-management
- Enable district attorney to more efficiently determine prosecution status, caseload distribution, and effectiveness of prosecution by direct access to complete current booking record and criminal history
- Help court set bail, evaluate defendant risk, and determine custody/release disposition by direct access to complete current booking record and criminal history
- Assist in the management of prisoner population including next event calendaring, docket backlogs, and court caseload by court-to-computer direct interim disposition entry.

- **Security - The data stored in SANJIS will be password protected to allow participating departments and individuals to access only that information authorized for their use.**

- **Other Applications - The basic technology can also serve the needs of administrations throughout the City and County.**

- **OTHER CONSIDERATIONS**

  - **Illegal aliens:**

    - Indications are than more than 300 prisoners may be illegal aliens, but neither police nor sheriff personnel are allowed to verify this concern.

    - If illegal alien identification measures can be established, such inmates can be turned over to Immigration and Naturalization Services (INS).

    - At current out-of-county housing costs, this would equate to a savings of more than $7.0 million.

  - **Booking** :

    - Current procedures involve both Police and Sheriff Department personnel.

    - Opportunities may be available to improve efficiency.

    - Recommend an independent study be initiated to identify inefficiencies, appropriate changes and associated savings.

SAN FRANCISCO FIRE DEPARTMENT
MAYOR'S FISCAL ADVISORY COMMITTEE

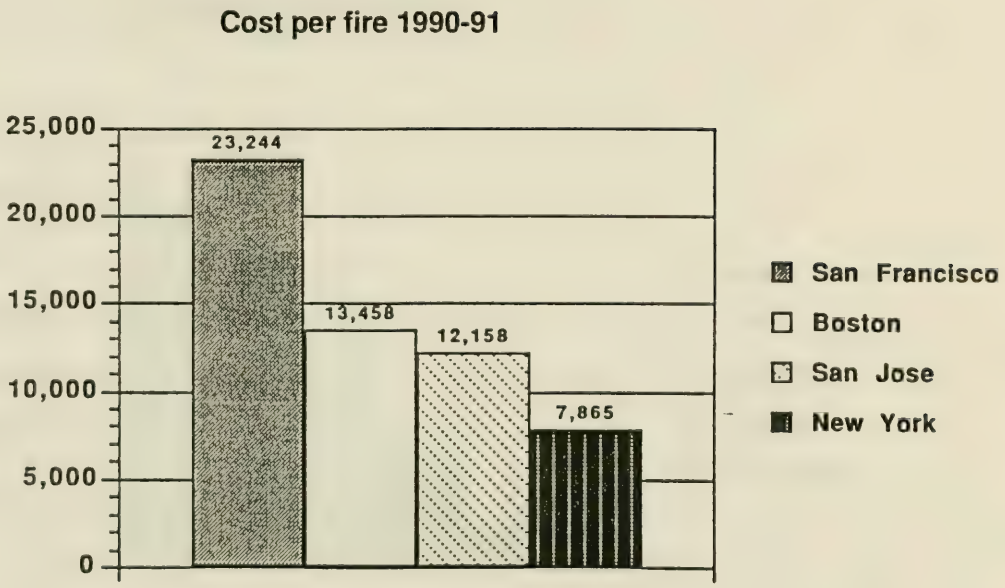
INTERIM DISCUSSION

MAY 7, 1992

Fire Department analysis still in progress

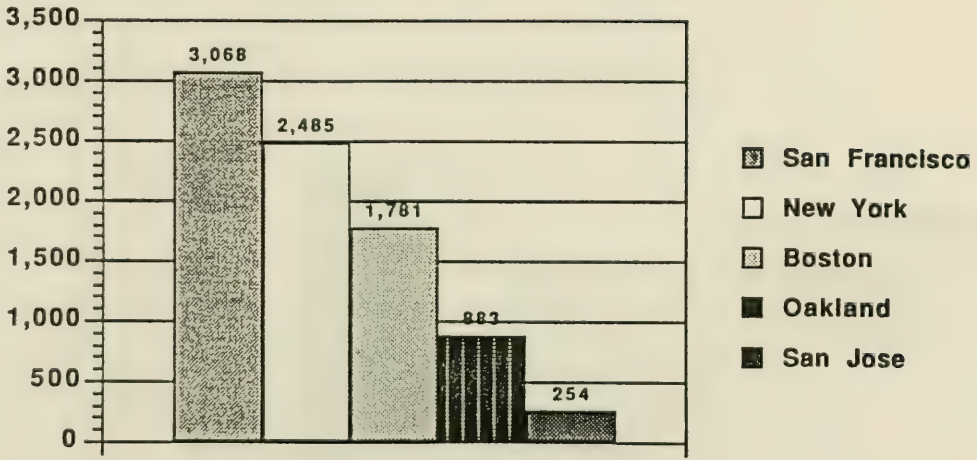
- Internal review in start-up stages
- Focus on peer cities to date
  - still waiting for final data
  - must assess key differences (density, topography, legal)
- Some interesting early results

Costs per fire appear higher than in other cities



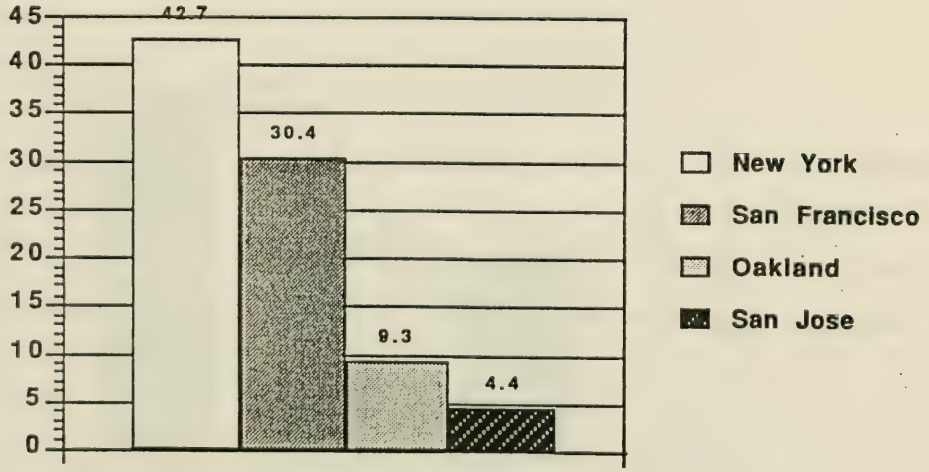
Costs per square mile appear higher than in other cities

Costs of Fire Protection
Per square mile 1990-91



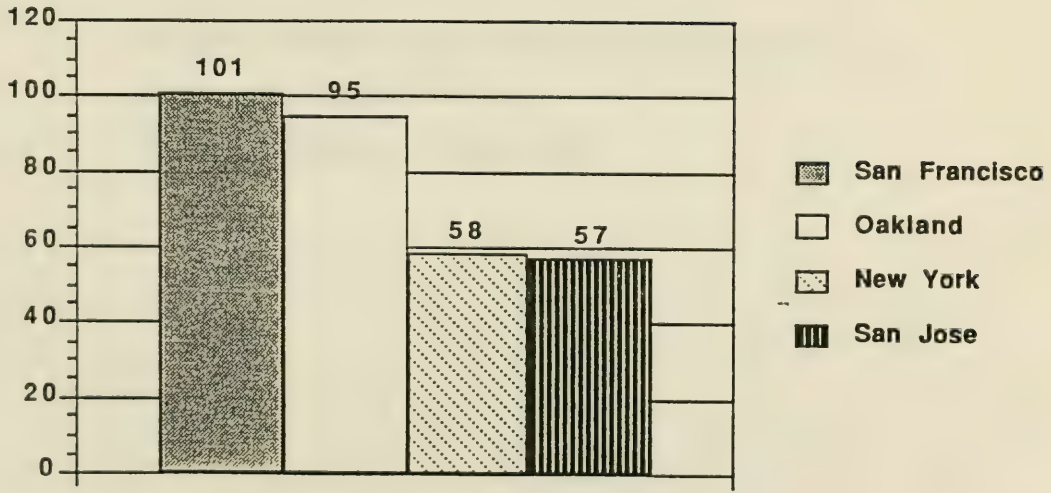
In terms of employees per square mile, San Francisco appears higher than nearby cities but lower than New York

Total Fire Department Employees Per Square Mile 1990-91



Costs per employee appear higher than in other cities

Costs per Fire Department Employee
($ 000's 1990-91)



Next steps

- Continue analysis in cooperation with Department
- Pursue peer city information
- Finalize analysis and suggestions

Mayor's Fiscal Advisory Committee (MFAC)

City and County of San Francisco

Municipal Court

MAYOR'S FISCAL ADVISORY COMMITTEE
COST AND REVENUE TREND
FISCAL MODEL PROJECT

MUNICIPAL COURT

TRENDS IN TOTAL REVENUE

Actual					Forecast				
1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
1,504	1,487	1,444	1,828	1,966	2,113	2,272	2,443	2,627	2,825

EXPENDITURES (General Fund Subsidy)

Actual					Forecast				
1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
13,214	13,754	16,220	17,759	19,948	22,165	25,158	28,966	33,864	40,219

REPORT HIGHLIGHTS

The Municipal Court, as part of the judicial branch of government, is independent from the Mayor's Office and from The Board of Supervisors.

The State is a major source of funding, e.g., of the Court's roughly $20 million dollar budget, approximately $13 million comes from the State pursuant to the Trial Court Funding Act.

As a result of legislation enacted in 1991 (The Trial Court Realignment And Efficiency Act of 1991) significant changes in the way courts are managed are in process. It is quite possible that in the future the courts may be funded entirely by the State.

Not categorized under the Municipal Court budget, but collected by he Municipal Court are fines and other receipts amounting to roughly $45 million dollars a year. Parking fines represent the largest component of these receipts (approximately $38 million in FY 89-90). Traffic fines for moving violations are the next largest component (approximately $4.2 million in FY 89-90).

The number of parking tickets being processed has declined in recent years from about $3 million in 88-89 to about $2.5

million in 89-90, and to about $2.3 million in 90-91, so that although fines have been increased substantially, parking ticket revenues have remained constant.

There is no coordinated program for the collection of fines. There are approximately $30 million dollars of uncollected fines and forfeitures.

SELECTED POLICY OPTIONS FOR THE CITY

Instituting an effective program to collect fines. The City of Chicago has realized a very impressive improvement in fine collection by involving the private sector. The Chicago program and experience should be evaluated for the potential of a like program for San Francisco.

At the very least better information flow between the Court and other City departments would help improve fine collection. For example, if the Tax Collector had a terminal connected to the Court's system, the Tax Collector could know whether an applicant for a permit owed any fines and require that they be paid as a condition of issue of the permit.

Report to Mayor Frank Jordan

SAN FRANCISCO POLICE DEPARTMENT

Mayor's Fiscal Advisory Committee

Public Protection Team

May 7, 1992

Short Term Recommendations: (FY 1992-93)

	Potential Savings
• Eliminate 4-10 Plan	$1.0 Million +
• Reform Overtime Procedures	$8.0 Million
• Privatize Senior Escort Service	$1.8 Million
• Shift Parking Complaints to Parking/Traffic Dept	$0.4 Million
• Utilize Proposition J: Private Sector Contracts	$1.2 Million
Subtotal:	**$12.4 Million**

Long Term Recommendations: (FY 1993-94 and Beyond)

• Increase Rate of Civilians to Sworn in SFPD	$14.0 Million
• Reduce Number of Captains and Lieutenants	$4.4 Million
• Close 6 District Stations	$5.7 Million
Combined Savings:	**$19.7 Million**

Other Areas for Consideration:

- Emphasize Asset Forfeiture through Narcotics Division as a Revenue Source
- Increase Automation through Improved Technology
- Reexamine City's policies regarding SRO Residential Hotels

Eliminate "4–10" Plan.

In 1990, a 4 day – 10 hour per day work week was adopted Department–wide. Initially experimental, the 4 day work week proved very popular with officers since it increases the number of "off–duty" days and provides for longer weekends. Additionally, since many members of the department live outside the City, it reduces the number of commutes into the City which any individual officer must make.

It appears, however, that the costs of a 10 hour work–day exceed that of an 8 hour day in at least two important regards. First, scheduling is made very inefficient since a 24 hour work–day does not readily divide into 10 hour shifts. This problem is exacerbated by officers who have seniority which gives them great influence over their schedules thus taking the flexibility of the "flex–time" out of the hands of their superiors. This becomes especially burdensome when the commanding officer is required to replace someone due to vacation, sick time, compensatory time, etc. It has been estimated that the 10 hour day, reduces the available officers by 25%.

Secondly, the Overtime costs associated with the 4–10 plan exceed the 5–8 plan in at least two major respects. Since there are 11 per year with an additional 3 allocated as "Floating Holidays". These were not adjusted when the 4–10 was instituted, costing the Department 28 hours per Officer. We estimate that this adjustment alone costs the Department at least $800,000, annually. Second, expenses associated with Court time have increased. When Officers are required to appear in court, if they were previously scheduled to be off–watch during this period, they are paid at overtime rates for the first three hours of such an appearance. If their appearance is still required in the afternoon, they are "detailed to court", costing the Department an entire shift. Under the 4–10 plan, losing a 10 hour shift results in a 25% greater loss of hours than under a conventional 8 hour schedule requiring additional overtime to make up some of the difference. Finally, since under a 4–10 plan it is 14% more likely that an Officer will be "off watch", there is a corresponding increase in the amount of Overtime incurred. The Department estimates that this results in approximately $50,000 of increased Overtime, and this is considered to be a minimum.

We note that there appears to be a correlation between the 1990 timing of the implementation of the 4–10 plan and a dramatic surge in the amount of overtime incurred in the Department. This Committee believes that barring a major change in the way overtime is allocated, the elimination of the 4–10 plan is essential to significantly reducing the Department's budget without reducing the size of the force.

Reform Overtime Procedures

Overtime appears to be wildly out of control in the Department. Overtime and Extended Work Week together in Fiscal 1991 cost the City over $10,167,000. In addition, it appears that Compensatory Time is similarly out of control. A random two week overtime report we received indicated that Compensatory Time was 167% that of paid overtime. Although one report is certainly not a statistically valid sample, projecting such a ratio over the entire Department would indicate the true cost of overtime at something in excess of $32 Million! This is a staggering sum.

The Department should review its policy for Overtime and make it much more difficult for an officer to apply for or receive overtime with a goal of reducing total overtime by 25%. At a minimum, senior officer approval should be required before any overtime request is approved.

Regular Overtime Summary Report

Beginning 0001 Sat. 2-1-92 Ending 2400 Fri. 2/14/92 Dist/Bur/Det Central Station

RANK		1 COURT P	1 COURT T	2 INVEST P	2 INVEST T	3 ARREST P	3 ARREST T	4 MISCL P	4 MISCL T	TOTAL HOURS BY P	TOTAL HOURS BY T	FOR OFFICE USE ONLY GRAND TOTAL O/T	5 E.W.W. P	5 E.W.W. T	6 HOLIDAY P	6 HOLIDAY T	TRAINING P	TRAINING T
SWORN EMPT	N																	
	P																	
Q48	N																	
	P																	
Q45	N							6	3	6	3							
	P								(1)		(1)							
Q34/Q38	N	9	(3)		(1)			4	8	13	12							
	P		(2)		(1)						(13)							
Q33	N																	
	P																	
Q2	N	78			10.5			5	(174)	93.5	(174)							
	P	4	35		78		45		(3)	55.5	88.5							
9350 NON SWORN	N								5		5							
	P								(1)		(3)							
	N																	
	P																	
	N																	
	P																	
	N																	
	P																	
TOTAL		91	(5)	35	(2)	85	45	19	(277)	172	(288.5)							
FOR OFFICE USE ONLY DISTRIBUTION																		

Reviewed and Approved by: CAPTAIN THOMAS PETRINI #399
COMMANDING OFFICER

Exhibit B-2

SAN FRANCISCO POLICE DEPARTMENT
Components of Overtime Pay
(Actual Dollars)

	1987	1988	1989	1990	1991	Avg % Annual Growth (CAGR) 87-91	1989-1990 $ chg	1989-1990 % chg	1990-1991 $ chg	1990-1991 % chg
Overtime	3,799,785	4,298,063	4,226,149	7,304,874	6,974,229	16.4%	3,078,725	73%	(330,645)	-5%
Extended Work Week	839,233	916,384	773,543	1,921,122	3,193,709	39.7%	1,147,579	148%	1,272,587	66%
Subtotal	4,639,018	5,214,447	4,999,692	9,225,996	10,167,938	21.7%	4,226,304	85%	941,942	10%
Holiday	1,678,915	1,806,088	1,884,421	1,959,591	2,093,925	5.7%	75,170	4%	134,334	7%
Total	6,317,933	7,020,535	6,884,113	11,185,587	12,261,863	18.0%	4,301,474	62%	1,076,276	10%

Components of Overtime Pay
Percent of Total

	1987	1988	1989	1990	1991
Overtime	60.1%	61.2%	61.4%	65.3%	56.9%
Extended Work Week	13.3%	13.1%	11.2%	17.2%	26.0%
Subtotal	73.4%	74.3%	72.6%	82.5%	82.9%
Holiday	26.6%	25.7%	27.4%	17.5%	17.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

SAN FRANCISCO POLICE DEPARTMENT

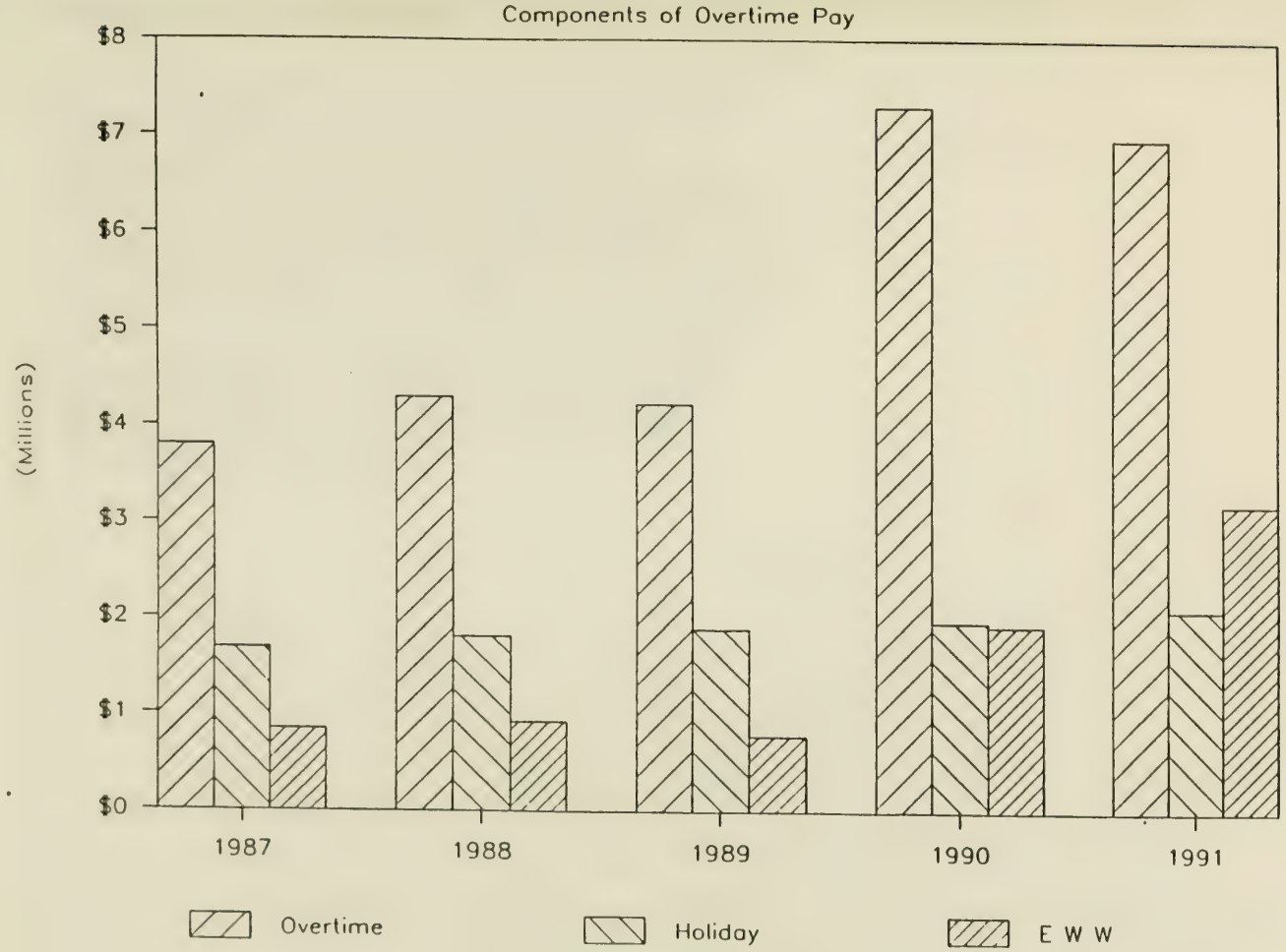


Exhibit B–4

Privatize Senior Escort Service.

Currently, non-uniformed persons, under the SFPD budget, are hired to provide escorts to persons over 60, at little or no charge, to medical appointments and shopping trips using escort vans, taxi cabs, or public transportation. Currently, its budget exceeds $2 Million and is funded out of the Department's budget. In 1991 this program provided approximately 900 monthly, one-way, pedestrian escorts at a cost of approximately $32 per trip. In addition, it provided approximately 10,000 vehicle escorts at a cost to the City of approximately $178 per trip. This committee believes that these are excessive costs for this service. We recommend that the City subcontract this service out to an existing "Self Help" non-profit group and permit them to distribute taxi vouchers paid for by the City. We estimate the cost of the average (round) trip by Taxi would be $10 and the cost of the vehicle escorts $20. We estimate that a private concern, without additional administrative costs, could run this program at a total cost of under $330,000 saving the Department $1,800,000.

Shift Parking Complaints to Parking/Traffic Department.

Parking complaints were assigned to the Parking and Traffic Department some time ago. Still, the Department has maintained responsibility for answering these calls. In addition, it is estimated that approximately 75,000 calls (10% of the total calls for service handled by the Department) are currently parking related. Of these calls, approximately 1/2 continue to be responded to by the Patrol Division. Since such calls are assigned a low priority, the costs are difficult to assess. Assuming, however, that such calls require an average of 30 minutes of an officer's time, this is costing the Department over $700,000. We estimate that 50% of this amount could be saved by assigning these calls to the proper division.

We note that even using such an assumption, it is still probably costing the City approximately $10 per call to respond to these calls. Most of them are calls to cite cars parked in driveways. In order to discourage such violators and make it more cost efficient for the City to respond to citizens' complaints, we recommend that the City significantly increase the fines for such offenses.

TO: Captain Thomas Suttmeier
Commanding Officer Planning Division

FROM: Officer James Ramsey #924
Planning Division

DATE: Monday 4-27-92

SUBJECT: Report on Parking Complaints as Requested.

DISCUSSION
In response to your request, I submit the following summary:

	All Calls for service	Parking Complaints*
February '92	61,271	6,307 (10.3%)
March '92	66,094	6,341 (9.6%)
	127,365	12,648 (9.9%)

Parking complaints handled by:

Patrol Division:	5,930 (46.9%)
Parking & Traffic Control:	6,434 (50.9%)
Cancelled or Other:	284 (2.2%)
	12,648

Parking complaints handled by the Patrol Div:

Officer assigned Units:	5,400 (91.1%)
Parking/Traffic Officers Assigned to the Station:	530 (8.9%)
	5,930

Summary:
Parking Complaints* account for 9.9% of the total calls received by dispatch.

Parking & Traffic Control officers handle 50.9% of these calls; cancelled or otherwise handled by dispatch account for 2.2%; the patrol force handle the remaining 46.9%.

* Parking Complaints=Code 587 (misc parking violations) & Code 588 (Driveway Tow/Cit).

Exhibit D-2

Utilize Proposition J: Private Sector Contracts.

Janitorial and other services to the department are currently provided by the City using Department of Public Works employees who fall under Civil Service pay and work rules. The use of outside services, such as janitorial, was authorized by the voters. An outside bid has been obtained by the Department which, if accepted, would reduce by approximately $500,000 the cost of its janitorial service. In addition, the Department believes that the service would be better than that which it currently is provided. This proposal would probably require approval of the Board of Supervisors and this Committee recommends such approval.

Using the same ratio of savings to other service areas, (e.g., automobile maintenance), we estimate that additional savings of approximately $700,000 could be achieved.

	SF	SJ	OAK	SAC
Number of Sworn	1,822	1,127	660	615
Number of Civilians	446	399	390	356
Total	2,268	1,526	1,050	971
Percent Sworn	80%	74%	63%	63%
Percent Civilian	20%	26%	37%	37%

The average percentage of civilians in San Jose, Oakland, and Sacramento is 33%. If San Francisco were to increase its rate of civilians from 20% to 33%, it would necessitate the shifting of **310 positions** from sworn to civilian.

The following approximates the cost savings associated with an increased rate of civilians.

Average salary (plus pension) for sworn personnel: **$74,925**

Average salary (plus pension) for civilian personnel: **$29,864**

Difference: **$45,061**

$45,061 X 310 = $13,968,910

Approximately $14 Million could be saved by increasing the rate of civilian to sworn employees in the San Francisco Police Department.

	SF	SJ	OAK	SAC
Number of Captains	26	10	9	11
Number of Lieutenants	73	44	22	24
Total	**99**	**54**	**31**	**34**
Number of Sergeants	179	210	117	70
Number of Officers	1,158	857	483	503
Total	**1,337**	**1,067**	**600**	**573**
Ratio of (Cap + Lt) / (Sgt + Offcr)	**7.4**	**5.1**	**5.2**	**5.9**

The average ratio of Captains and Lieutenants to Sergeants and Officers for San Jose, Oakland, and Sacramento is **5.4**. If San Francisco were to move to reduce its ratio from 7.4 to 5.4, it would necessitate the elimination of 7 Captains and 20 Lieutenants.

The following approximates the cost savings associated with reducing the number of Captains and Lieutenants to bring us more in line with our peer cities.

Salary, pension, and benefits for SFPD Captain: **$179,584 X 7 = $1,257,088**

Salary, pension, and benefits for SFPD Lieutenant: **$154,660 X 20 = $3,093,200**

Approximately **$4.4 Million** could be saved by eliminating 7 Captains and 20 Lieutenants.

	SF	SAC	OAK	SJ
Number of Stations	9	2	1	1
1991 Population	927,817	369,365	372,242	782,248
Square Miles	46	96	54	158
Square Miles/Station	5.1	48	54	158
Population Density (pop/sq mile)	20,170	3,848	6,893	4,951
Pop Served/Station	103,091	184,683	372,242	782,248

The average population served per station for Sacramento, Oakland, and San Jose equals **446,391**. If San Francisco were to move to 3 stations, we would still be well below this average with **309,272** served per station.

The following approximates the cost savings associated with station closings:

Nine District Stations	**Total Cost**	**Ave Cost/Station**
9 Captains, 35 Lieutenants	7,029,356	781,040
34 Civilians	1,166,722	129,641
DPW Janitor	355,090	39,454
Total	**8,551,218**	**950,135**

6 X $950,135 = $5,700,810

$5.7 Million could be saved by closing six district stations.

SRO Residential Hotels.

In order to preserve its stock of "low cost housing", the City instituted a policy of requiring residential hotels to remain as such despite the frequent desire of the owners of such properties to remodel or demolish them. Since these properties are frequently single room occcupancy (SRO), residents are required to share common bathrooms. Often the properties do not have kitchens. They are also frequently cited for health and fire code violations.

These properties have been identified by the Department (and their neighbors) as the wellspring of a significant amount of the crime in the City. We recommend that the City review its policy towards such housing.

BAY AREA/CALIFORNIA

S.F. School Walls Off Nearby Crime

By Ingrid Chun
Chronicle Staff Writer

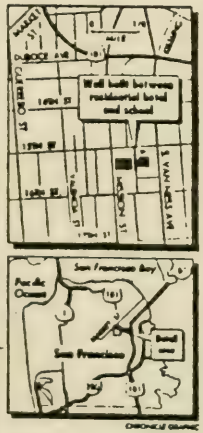
Until two months ago, the Marshall Elementary School yard at 1575 15th Street was better known as a dumping ground for hypodermic needles, used condoms and liquor bottles than as a safe place for children to revert.

The nearby Grand Southern, a residential hotel whose rear wall faces the school yard, was a magnet for derelicts, addicts and prostitutes. Denizens of the hotel avoided its front security gate at 1550 Mission Street by meandering through the school yard — sometimes in daylight as children were playing — and then climbing over a broken cyclone fence to the hotel's backdoor fire escape.

'Enough is Enough'

"We had this constant traffic through our school yard," said Dolores Knight, interim principal of the public school. "There were all kinds of prostitutes and drug dealing behind that fence. We'd find needles, wine bottles, condoms all over the school yard — and we said 'Enough is enough.'"

When she arrived last August, Knight put on her shining armor and burst into action. She galvanized parents, police and community leaders with the Save the Mission Coalition into a united effort that has chased the local crime off school property.



Police started patrolling the area more often. Police Captain John Newlin of Mission Station asked the city Department of Public Health, the Fire Department and the Bureau of Building Inspection to send inspectors to the Grand Southern. Its owner, Rubin Salem, was subsequently cited for numerous violations of health and safety codes.

Newlin also enlisted the help of private commercial developer Burt Hamrol because the school district did not have the money to build a better fence.

The result is a new, 16-by-80-foot wooden wall built by Hamrol's employees at no cost to the city. The fence, which is difficult to climb over from the school side, is being decorated with a mural designed by artists Ray Patlan and Eduardo Pineda, financed with $7,500 from the city.

Combined with increased law enforcement pressure on the Grand Southern, the wall put an end to the school's immediate troubles. The hotel manager has moved his more elderly and quieter tenants to the back of the building and installed alarms on the back fire-escape doors.

Before the new wall went up at the end of February, the situation was so bad that some parents wanted to pull their children out of the school.

"So many of our kids are newly arrived immigrants in the U.S. It's such an assault to have their first experience in the U.S. at that level," Knight said. "It's not the kind of environment you want to raise children in."

"It got to the point where prostitutes were actually soliciting the bus driver and parents bringing their kids to school," said Newlin, the police captain.

Carmen Rosario, 61, who has two grandchildren attending Marshall Elementary, said the children would often come home talking about needles in the school yard or naked people standing in the hotel windows. "It's no good for the children to see those people doing that stuff in front of them," said Rosario, who is chairwoman of the school's site advisory committee.

Rosario praised Knight's work and said many parents want Knight to stay even though she is scheduled to leave this fall. "I wish we could keep her there, and I'm not the only one who feels like that," Rosario said.

BY PHOTOGRAPHER FOR THE CHRONICLE

Children played at the Marshall Elementary School, with the Grand Southern Hotel in the background.

BAY AREA REPORT

■ SAN FRANCISCO

Neighbors Win Haight Building Nuisance Suit

Haight-Ashbury residents won a $168,000 judgment yesterday in a replay of their victory last year against a local rooming house owner who allegedly operated a public nuisance.

Judge Daniel Hanlon of San Francisco Superior Court awarded 40 neighbors of Victoria Esmas' rooming house on 115 Frederick Street amounts ranging from $250 to $5,000. The neighbors won a similar verdict last May in small claims court, but the verdict was set aside when Esmas exercised her right to a new trial in Superior Court.

The judgment stems from charges that drug use, fights and noise at the rooming house created a public nuisance and caused neighborhood residents emotional distress.

The $184,500 small-claims award made last year was by far the largest to result from four small-claims cases brought since 1986 against owners of Bay Area buildings found to be public nuisances. Esmas' demand for a new trial held up payment of the award and her neighbors are now awaiting money from the latest judgment, which includes additional legal costs.

MAYOR'S FISCAL ADVISORY COMMITTEE

REVENUE/COST TREND PROJECT

DEPARTMENT OF PUBLIC HEALTH TEAM

Presentation to Mayor Jordan

March 31, 1992

Purpose of today's discussion:

1. Compare San Francisco's expenditures to those of other California counties

2. Analyze reasons for higher San Francisco expenditures

3. Review historical trends in revenues and expenditures

4. Consider ways to narrow the budget gap

SUMMARY FINDINGS

A comparison of the Department of Health's operations with other California peer counties suggests San Francisco:

A. Provides Higher Levels of Service

1. Has demographics weighted toward those needing City health services

2. Has made a policy choice to provide higher levels of service (and therefore, spend more) than peers

B. Spends More General Fund Money for a Given Level of Service

1. Collects lower revenues

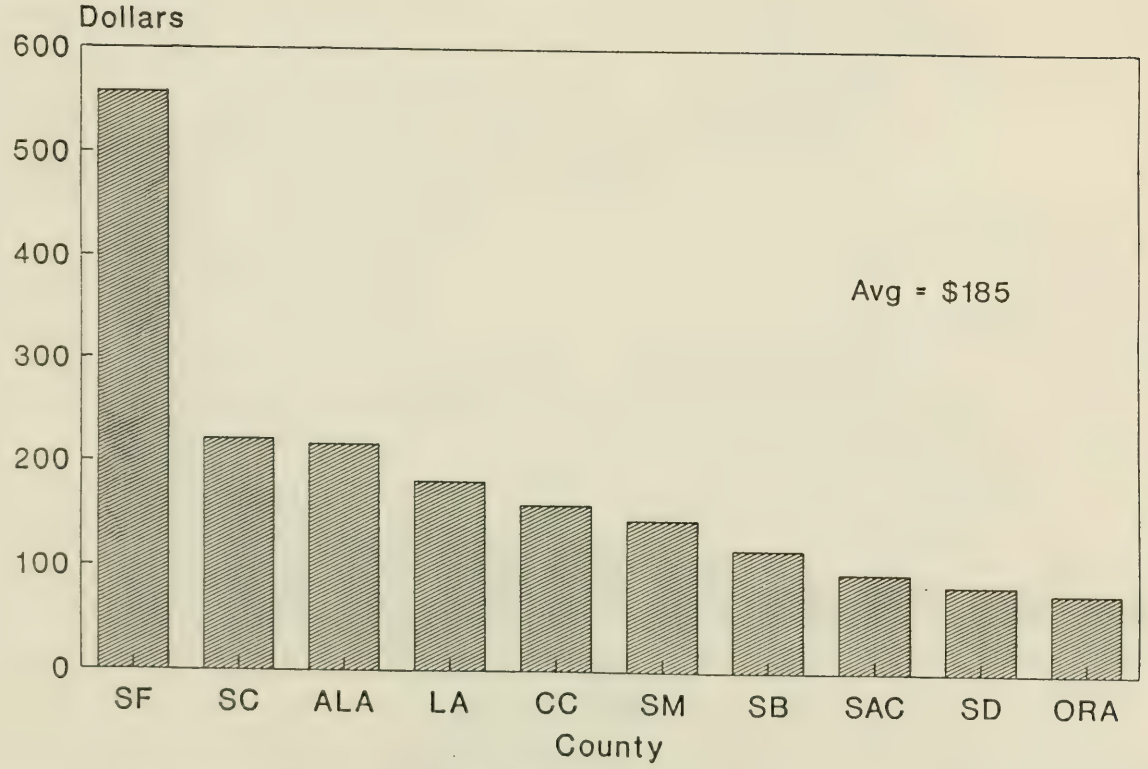
2. Has higher costs of service

Demographic characteristics tend to exacerbate the revenue and cost equation

- Lower income/higher general assistance
- Older population
- Greater ethnic/cultural diversity
- More transient population
- Apparently lower Medi-Cal eligibility
- Less private insurance?

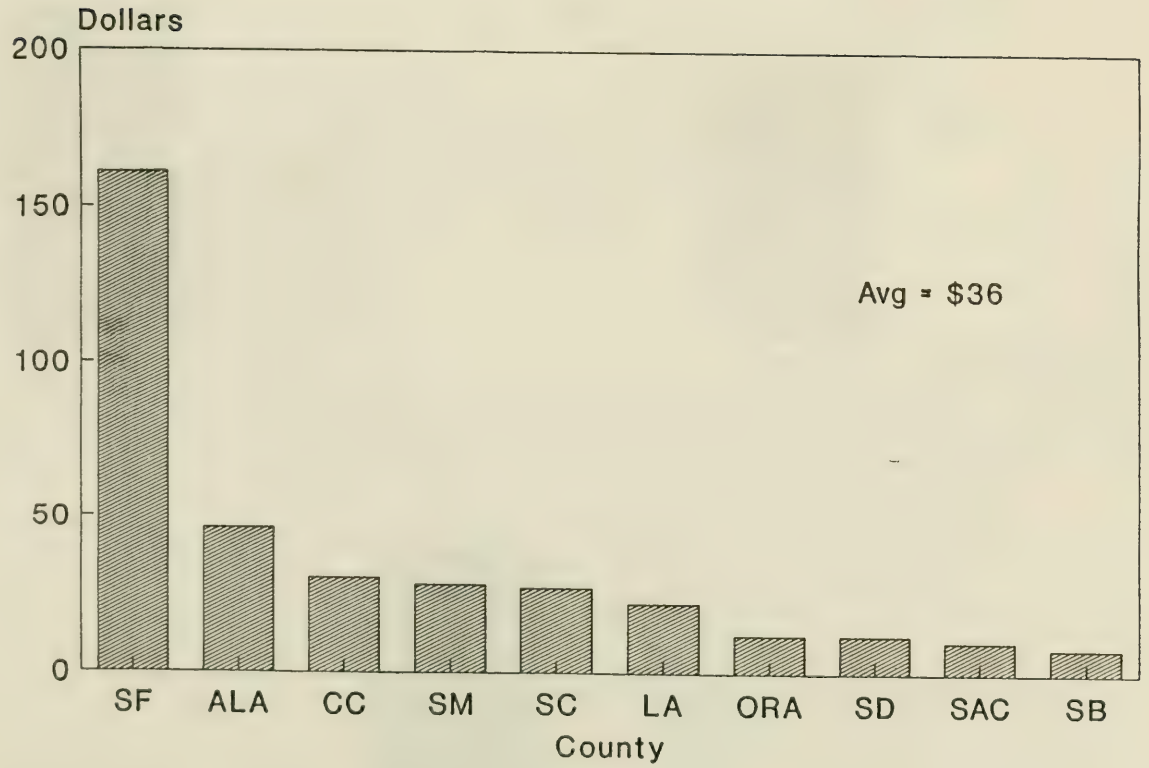
SAN FRANCISCO SPENDS MORE; PROVIDES MORE SERVICES

Gross Health Care Cost/ Capita



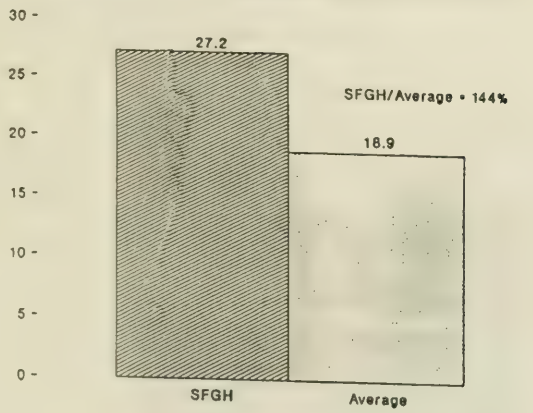
Source: AB8. CA Department of Mental Health

Net County Cost/ Capita

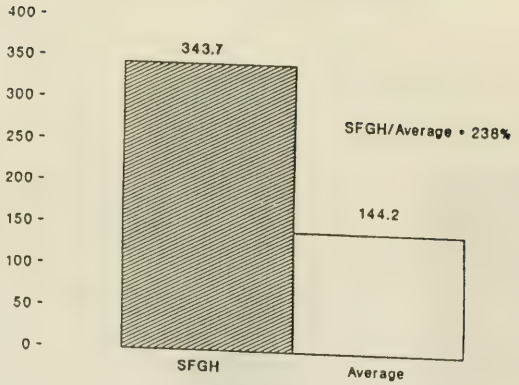


SAN FRANCISCO GENERAL HOSPITAL
PEER COMPARISONS
Levels of Services, 1989

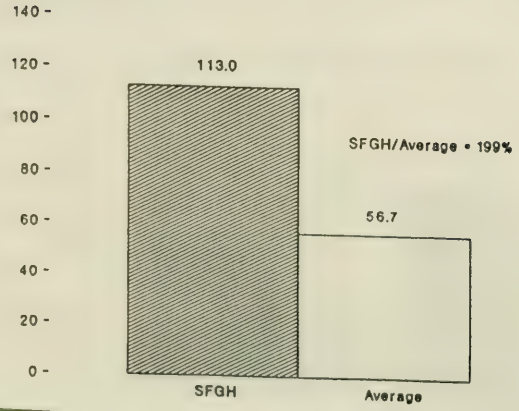
Inpatient Discharges Per 1000 Population



Outpatient Clinic Visits
Per 1000 Population



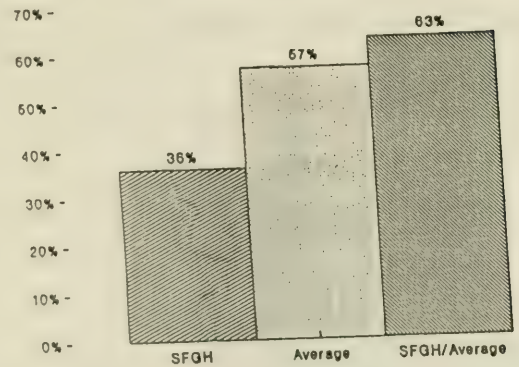
ER Visits Per 1000 Population



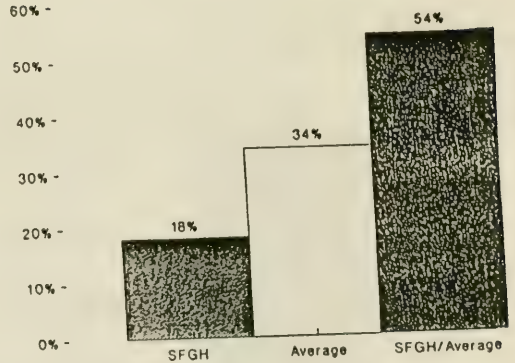
SAN FRANCISCO GENERATES
LESS REVENUE

SAN FRANCISCO GENERAL HOSPITAL
PEER COMPARISONS
Payor Distribution, 1989

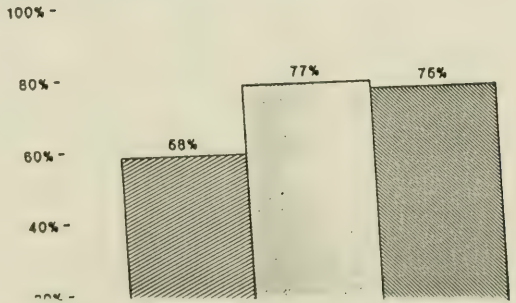
Medi-Cal
Inpatient Discharges as a % of Total



Medi-Cal
Outpatient Visits as a % of Total

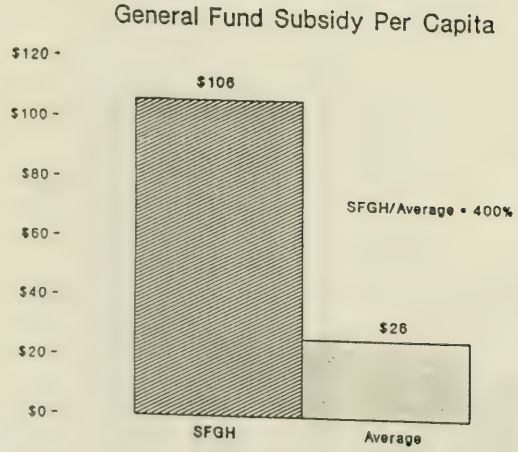


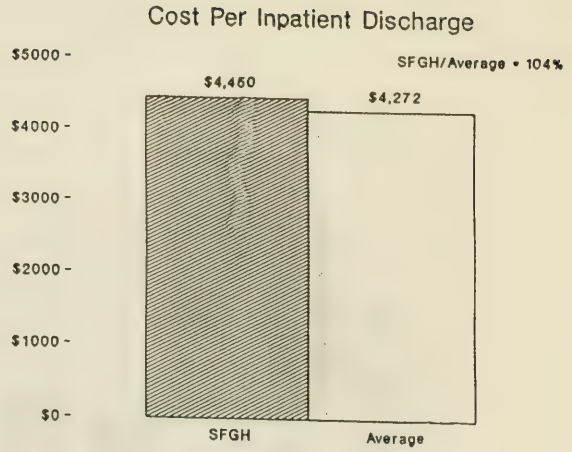
Ratio of Revenues to Expenses



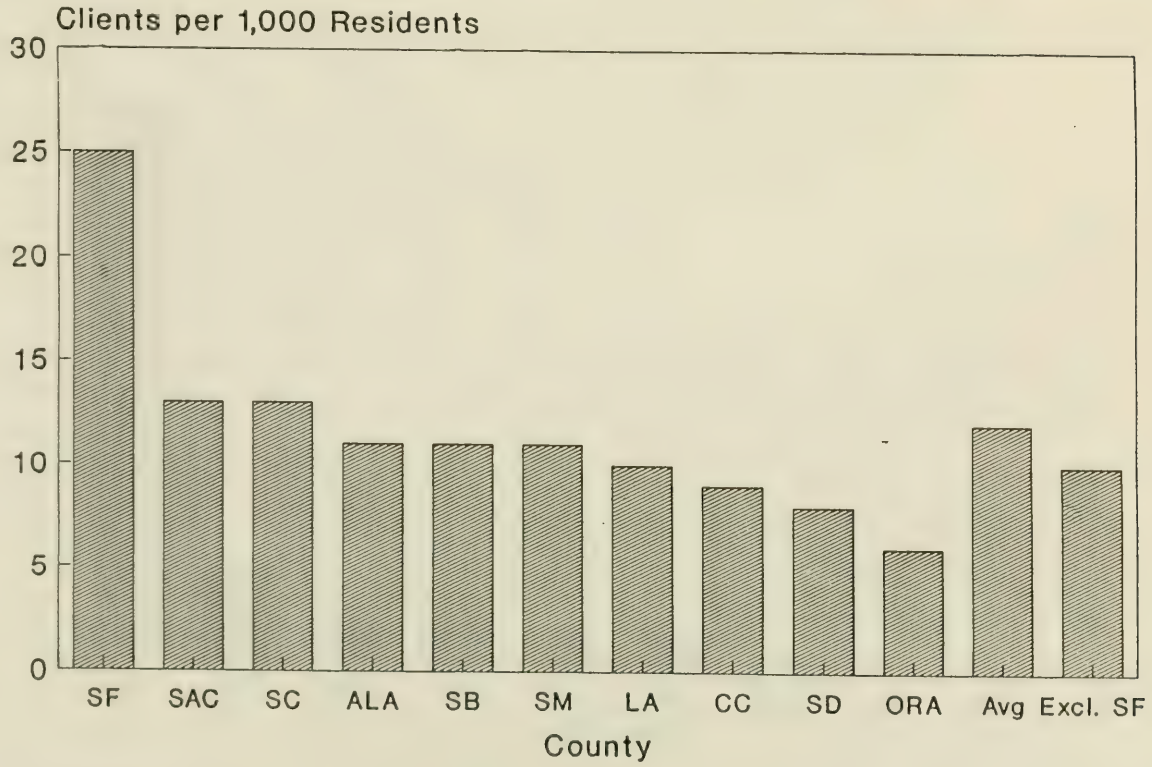
SAN FRANCISCO'S EXPENDITURES DRIVEN BY HIGHER SPENDING, NOT COSTS

SAN FRANCISCO GENERAL HOSPITAL
PEER COMPARISONS
Expenditures and Costs, 1989

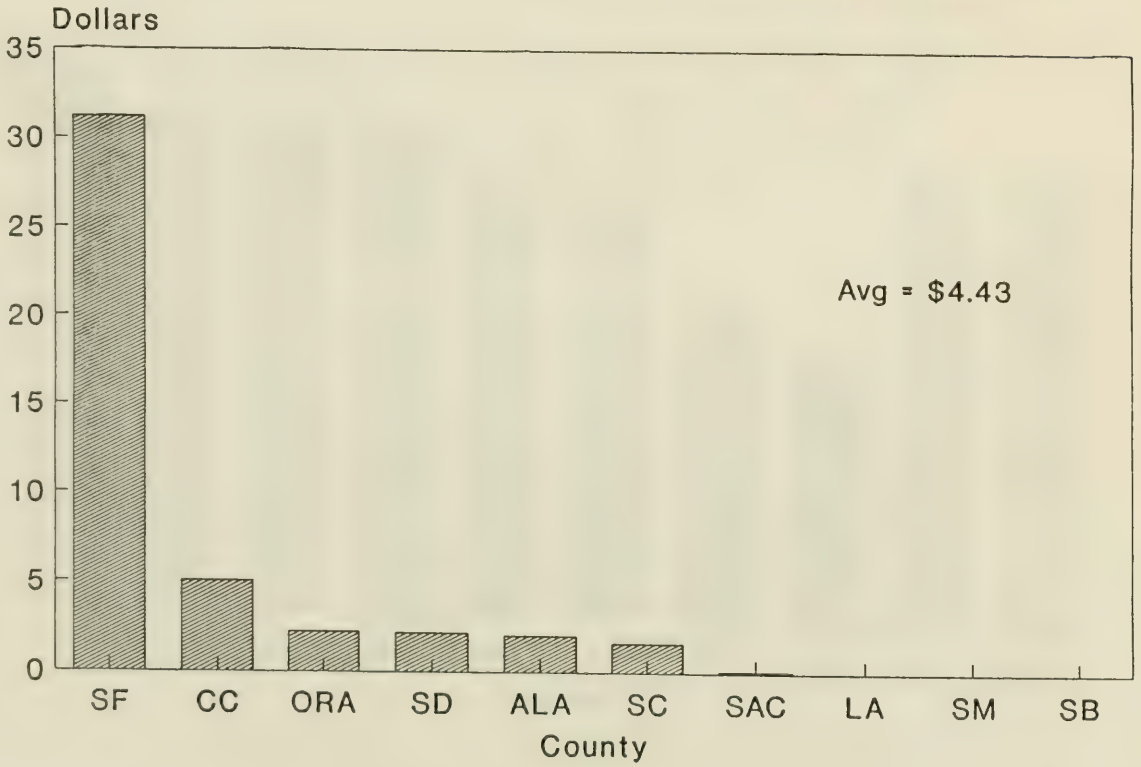




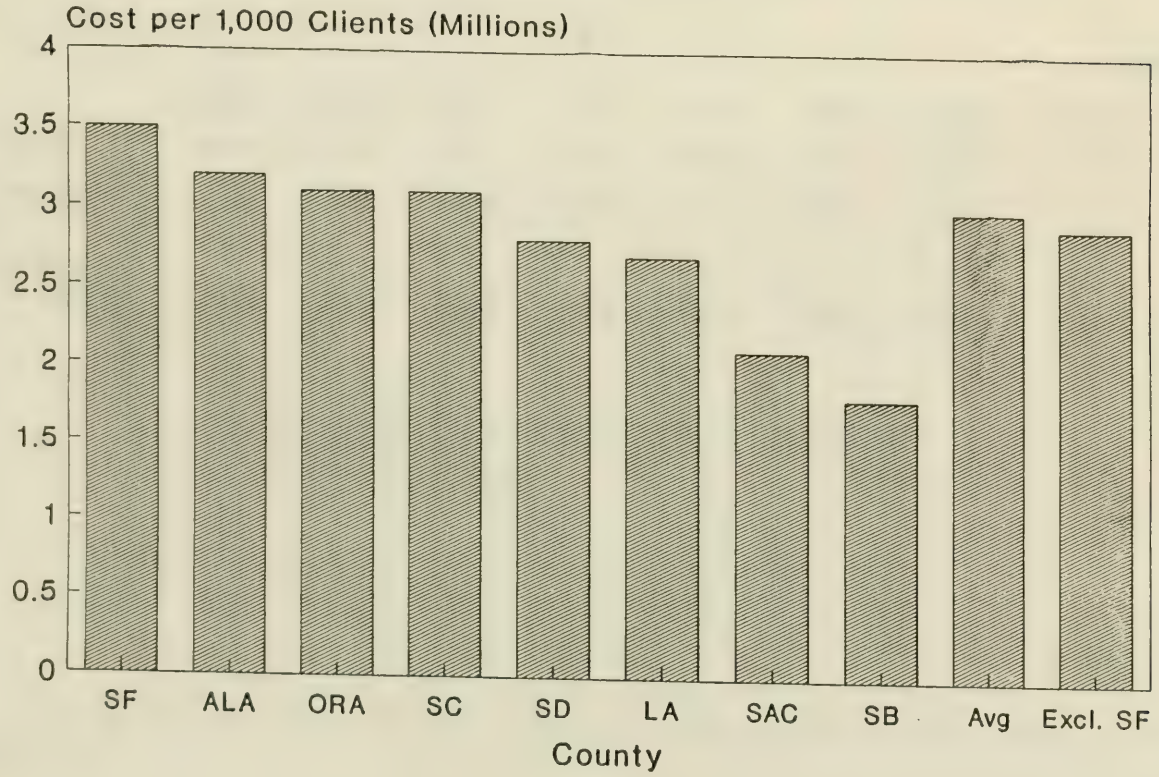
Mental Health Clients
(Excluding State Hospital Use) 1988-89



Community Mental Health: County Overmatch Per Capita (1988-89)



Mental Health Clients Expenditures (Excluding State Hospital Use) 1988-89



DEPARTMENT OF HEALTH
Revenues/Expenditures/General Fund
$ Millions

	Fiscal years ending June 30,							CAGR	
	1987	1988	1989	1990	1991	1992B	1993B*	1987-93	91-93
Revenues	$239	$254	$267	$303	$324	$358	$412	9.5%	12.8%
Expenditures	352	371	375	428	475	519	586	8.9	11.1
General Fund Subsidy	$111	$117	$108	$123	$151	$161	$174	7.8%	7.3%

National Health Expenditure Aggregate Inflation** (1987-90)	10.5%
SF Department of Health	6.7%

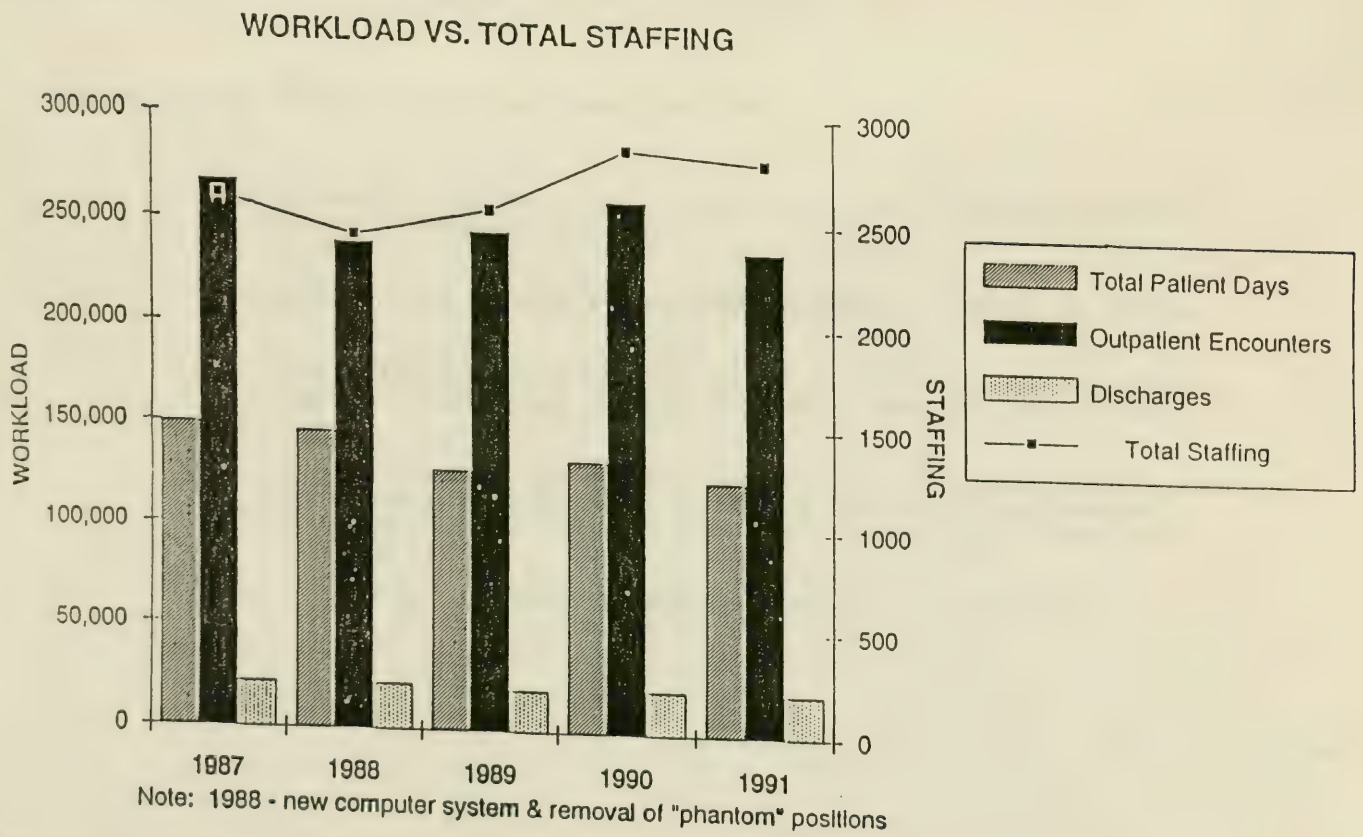
*Includes estimates of salary standardization and Nursing MOU costs. Includes SB855 revenues.
**Health Care

SAN FRANCISCO GENERAL HOSPITAL
Revenues/Expenditures/General Fund
$ Millions

	Fiscal years ending June 30,							CAGR	
	1987	1988	1989	1990	1991	1992B	1993B*	1987-93	91-93
Revenues	$126	$132	$136	$163	$172	$169	$211	9.0%	10.8%
Expenditures	171	188	187	219	232	233	265	7.6	6.9
General Fund Subsidy	$ 45	$ 56	$ 50	$ 56	$ 60	$ 63	$ 54	3.1%	(5.1)%

*Includes estimates of salary standardization and Nursing MOU costs. Includes SB855 revenues.

San Francisco General Hospital



Tentative &
Preliminary

MFAC
February 1992

SFGH SUMMARY

The following options should be pursued at SFGH:

1. Expanding management incentives through more direct application of the enterprise fund model.

2. Investing in information systems to enhance revenue collection.

3. Finalizing the renegotiation of the UC Affiliation Agreement to improve control over $26 million annual contract expenditures.

4. Renegotiation of the nurses' MOU provides an opportunity to reduce labor costs by slowing the growth in wage levels and reduce staffing (without reducing services) by altering MOU-mandated staffing levels.

    - 1% reduction in wage increase is $1.1 million/year
    - 15 fewer nurses saves $1.0 million

DIVISION OF MENTAL HEALTH,
SUBSTANCE ABUSE AND FORENSIC SERVICES
Revenues/Expenditures/General Fund
$ Millions

	Fiscal years ending June 30,							CAGR	
	1987	1988	1989	1990	1991	1992B*	1993B**	1987-93	91-93
Revenues	$40	$47	$47	$48	$51	$ 83	$ 83	12.9%	27.6%
Expenditures	87	79	79	82	94	128	144	8.8	23.8
General Fund Subsidy	$46	$32	$32	$34	$43	$ 46	$ 61	4.8%	19.1%

*Revenues and expenditures increased $26 million from 1991-92 due to implementation of realignment
**Excludes salary standardization and Nursing MOU.

DMSF SUMMARY

The following options should be pursued:

1. The Department should explore whether per unit costs of service can be reduced without affecting quality and level of service. A reduction in cost of service from $3.5 million per thousand clients to the 9-county average of $2.9 million would save approximately $11MM per year.

2. A reduction in the county overmatch without expense savings would require severe service cutbacks. A reduction from $31 per capita to $15 per capita would save about $11-12 million per year. The City could consider implementing a planning process to explore ways to cut services.

3. Consolidation of the many mutual health clinics into fewer locations might yield some savings in administration, overhead, and cost efficiencies. The substantial political effort needed to attain these savings may not justify the modest level of savings.

LAGUNA HONDA HOSPITAL
Revenue/Expenditures/General Fund
$ Millions

	Fiscal years ending June 30,							CAGR	
	1987	1988	1989	1990	1991	1992B	1993B*	1987-93	91-93
Revenues	$51	$60	$66	$69	$76	$91	$ 91	10.1%	9.4%
Expenditures	59	66	71	81	90	96	103	9.7	6.4
General Fund Subsidy	$ 8	$ 6	$ 5	$ 10	$14	$ 5	$ 12	7.0%	(7.4)%

*Includes estimates of salary standardization and Nursing MOU costs.

LAGUNA HONDA HOSPITAL SUMMARY

Through LHH, SF provides a level of long-term care which is not provided by peer cities/counties. Given the need to replace LHH, the long-term cost/revenue for the various options must be assessed.

BENEFITS

- Access to beds
- Local in SF
- Serves SF's relatively older population
- Outlet for people from SFGH

COSTS

- $5-10MM annual subsidy (Equal to above-market costs resulting from nurse's MOU?)
- Enterprise independence might reduce general fund costs
- Replacement cost of $550 million in near future (but with reduction in general fund subsidy?)
- Capital costs for new hospital would not be paid from general fund if financed with voter-approved general obligation bonds

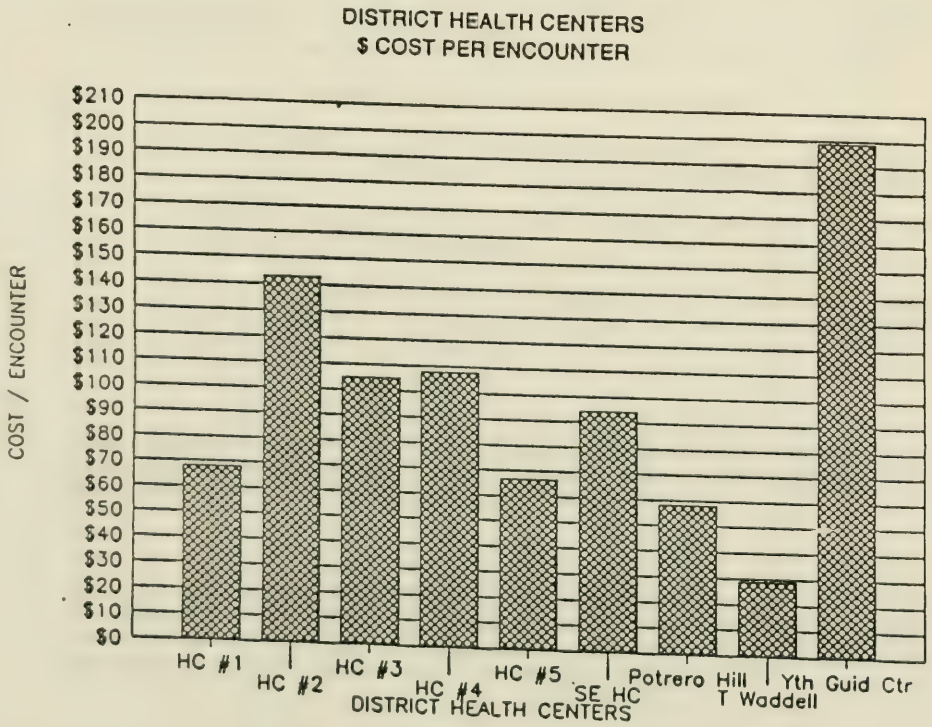
OPTIONS

1. Replace LHH as is
2. Clarify role: rebuild as smaller, more focussed facility
3. Stop providing service

PUBLIC HEALTH CENTRAL OFFICE
Revenue/Expenditures/General Fund
$ Millions

	Fiscal years ending June 30,							CAGR	
	1987	1988	1989	1990	1991	1992B	1993B	1987-93	91-93
Revenues	$22	$15	$18	$24	$25	$25	$27	3.5%	3.9%
Expenditures	35	38	39	46	59	64	74	13.3	12.0
General Fund Subsidy	$12	$23	$21	$22	$34	$39	$48	26.0%	18.8%

Cost by Clinic



CENTRAL OFFICE SUMMARY

Savings might be achieved by considering the following options:

1. Integrate certain outpatient clinics at SFGH with the CPHS clinic network to cut costs and relieve emergency room at SFGH

   - Wide differences in cost per encounter

     -- CPHS clinics - $70-90 average
     -- SFGH - $150-200 average (including specialty clinics)

   - $1MM in annual savings for each $5 reduction in overall cost per visit at SFGH

   - Consider possibility to reduce SFGH costs in light of specialty visits and provision of service under UC Affiliation Agreement.

2. Investigate reasons for variations in cost per encounter among CPHS clinics. Possible savings of $1-3 million per year could result if all clinics provided services at the lowest cost.

3. Closely monitor the growing level of grant-funded programs administered through CO for substance abuse, AIDS. If funding is reduced or eliminated, there will be pressure on general fund to continue funding those programs. Current programs total $70-75 million per year

4. Better integrate AIDS treatment into CPH System to potentially reduce administration and other overhead costs.

CONCLUSIONS

To reduce the growth of the general fund subsidy to the Department of Public Health and to increase management control of departmental finances, a number of options are available:

1. Expense reductions

   - Labor costs
   - Automation
   - Enterprise funds

2. Investment in information infrastructure

   - Tracking costs/expenses
   - Collecting revenues

3. Renegotiation of UC affiliation agreement

4. Decision on future of Laguna Honda

5. Policy consideration about the appropriate and affordable levels of service.